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CURATIVE HEALTH SERVICES INC

Form 10-K

April 02, 2001

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
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FORM 10-K  
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(Mark One)

X Annual Report Pursuant to Section 13 or 15(d) of the Securities  
----- Exchange Act of 1934

For the fiscal year ended December 31, 2000

or

----- Transition Report Pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934

[No Fee Required]

For the Transition Period From to

Commission File Number: 000-19370

Curative Health Services, Inc.  
(Exact name of registrant as specified in its charter)

MINNESOTA 41-1503914  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification Number)

150 Motor Parkway  
Hauppauge, New York 11788  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (631) 232-7000

Securities registered pursuant to Section 12(b) of the Act:  
None

Securities registered pursuant to Section 12(g) of the Act:  
Common Stock, par value \$.01 per share  
(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months ( or such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing

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requirements for the past 90 days:

Yes X      No  
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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ X ]

As of March 15, 2001, 7,060,099 shares of Common Stock of Curative Health Services, Inc. were outstanding and the aggregate market value of such Common Stock held by nonaffiliates (based upon its closing transaction price on such date) was approximately \$39 million.

### DOCUMENTS INCORPORATED BY REFERENCE

Portions of Registrant's Proxy Statement for its 2000 Annual Meeting of Stockholders, which the Registrant intends to file not later than 120 days following December 31, 2000, are incorporated by reference to Part III of this Form 10-K Report.

## PART I

### Item 1 Business

#### General

Curative Health Services, Inc. is a leading disease management company in the chronic wound care market. Currently, the Company manages, on behalf of hospital clients, a nationwide network of Wound Care Centers(R) that offers a comprehensive range of services which enable the Company to provide customized wound care. The Company's Wound Management Program consists of diagnostic and therapeutic treatment regimens which are designed to meet each patient's specific wound care needs on a cost effective basis. The Company's treatment regimens are based on critical pathways designed for wound healing. The Company has a proprietary database of patient outcomes that the Company has collected since 1988 containing approximately 325,000 patient records which indicate an overall healing rate of approximately 80% for patients completing therapy. The Company's Wound Care Center(R) network consists of 126 outpatient clinics located on or near campuses of acute care hospitals in 33 states. The Company is developing new service models for other health care delivery settings including inpatient acute care and long term care facilities.

The Company believes that the high degree of specialization and expertise offered by the Wound Care Centers(R) provide benefits: (i) to patients through superior wound care, thus enhancing their quality of life, in many cases, allowing them to avoid amputation; (ii) to affiliated hospitals by enabling them to differentiate themselves from their competitors through better wound care treatment outcomes, to reduce costs by decreasing inpatient lengths of stay and to increase revenue through the introduction of new patients; (iii) to affiliated physicians by providing greater access to patients; and (iv) to insurers and managed care providers by offering a cost effective alternative to traditional wound care.

#### Recent Developments

On October 12, 2000, the Company announced the sale of the assets of its Procuren business for approximately \$3.8 million to Cytomedix, Inc. Under the

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agreement Cytomedix will be the exclusive manufacturer of Procuren and Curative will be the exclusive distributor of Procuren solution in the United States. Curative will also receive royalties based on the sales of products that are developed from the associated patents. The sale closed on January 2, 2001.

On March 20, 2001, the Company announced it had signed a definitive agreement to purchase all of the outstanding shares of Millennium Health, Inc. for \$32.3 million and the assumption and repayment of approximately \$5 million in debt, for a total of \$37.3 million in cash. Millennium is a privately held specialty pharmaceutical company engaged in the distribution of biopharmaceuticals.

### Industry

**Market Overview.** Chronic wounds are common in patients with diabetes and venous stasis disease, as well as in patients who are immobilized and afflicted with pressure sores. A chronic wound generally is a wound which shows no signs of significant healing in four weeks or has not healed in eight weeks. The healing of a wound is dependent upon adequate blood flow to stimulate new cell growth and combat infection. When adequate blood flow does not occur, the healing process is retarded, often resulting in a chronic wound that can last for months or years. Without effective treatment, a chronic wound may lead to more severe medical conditions, such as infection, gangrene and amputation, which are costly to payors and impede the quality of life for the patient.

According to *Chronic Wound Care: U.S. Markets for Wound Management Products* (Medical Data International, 1997), it is estimated that at least six million people suffer from chronic wounds in the United States. Of the six million people with chronic wounds, an estimated three million have pressure sores, over two million have diabetic ulcers, and over one million suffer from venous stasis ulcers. Diabetic ulcers are responsible for 60,000 limb amputations each year, accounting for more than half of all such procedures not related to trauma. Venous stasis disease and pressure sores often afflict the elderly, who constitute the most rapidly growing segment of the U.S. population and account for a disproportionately large share of total U.S. health care expenditures. It is estimated that the wound care segment of the U.S. health care industry generated \$5 billion in expenditures in 1997. It is also anticipated that the wound care market will continue to grow due to the aging population and the increasing incidence of health disorders, such as diabetes, which may lead to chronic wounds.

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**Traditional Approach to Chronic Wound Care.** Traditional chronic wound care treatment, which is typically administered by a primary care physician, relies principally on cleansing and debriding the wound, controlling infection with antibiotics and protecting the wound. For example, topical or oral antibiotics are administered to decrease the bacterial count in the wound, protective dressings are used to decrease tissue trauma and augment repair and various topical agents are applied that chemically cleanse the wound and remove wound exudate. These passive treatments do not directly stimulate the underlying wound healing process. In many cases, the patient may have to see a number of health care professionals before effective treatment is received. In addition, under this traditional care model, patients must manage their own care, which often leads to non-compliance and treatment failure which may lead to infection, gangrene and amputation. Although wound care programs have begun to evolve to more specialized and aggressive treatment regimens, the Company believes that a significant medical need and market opportunity exists for products and services that improve and accelerate the wound healing process.

The Curative Approach to Chronic Wound Care

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The Company's Wound Management Program is a comprehensive array of diagnostic and therapeutic treatment regimens with all the components of care necessary to treat chronic wounds. The Company's Wound Management Program is administered primarily through the Company's nationwide network of Wound Care Centers. The Company believes the Wound Management Program provides a better approach to chronic wound management than the traditional approach, which the Company believes lacks comprehensive wound programs, effective technology, positive outcomes and cost efficiency. Each Wound Management Program offers its patients an inter-disciplinary team of health care professionals, including a medical director, surgeon, nurse, case manager, nutritionist and endocrinologist.

In most cases, patients arriving at the Company's Wound Care Centers have been treated with traditional wound healing techniques, but continue to suffer from chronic wounds. In some cases, patients come to a Wound Care Center after they have received an opinion from their primary physician that limb amputation is required. Upon the commencement of treatment under the Company's Wound Management Program, medical personnel conduct a systematic diagnostic assessment of the patient. Specialized treatment protocols are then established for the patient, based on the underlying cause of the wound and the unique status of the patient. After the assessment phase, the course of treatment in the Wound Management Program may include revascularization, infection control, wound debridement, growth factor therapy, skin grafting, nutrition, protection devices, patient education, referrals, and effective management of care through patient/provider communications.

To measure the effectiveness of the Company's Wound Management Program, the Company has developed a functional assessment scoring system to measure the healing of a wound. Under this system, a chronic wound is considered healed when (i) it is completely covered by epithelium (i.e., a membranous cellular tissue that covers and protects a wound as it heals), (ii) maturing skin is present in the wound, (iii) there is minimal drainage from the wound, (iv) the wound requires only a protective dressing and (v) the limb involved is functional. The Company has a proprietary database of patient outcomes that the Company has collected since 1988 containing approximately 325,000 patient records which indicate an overall healing rate of approximately 80% for patients completing therapy.

One aspect of the Company's Wound Management Program is the use of Procuren(R), a wound healing agent which is used to treat approximately 6% of patients. Procuren(R) is a naturally occurring complex mixture of several growth factors. Growth factors have been shown to promote the growth of skin, soft tissue and blood vessels. Procuren, as part of a comprehensive treatment algorithm, has been used to treat over 60,000 patients to date. The Company believes that Procuren stimulates a normal wound healing response in patients with chronic wounds in much the same way as the body naturally initiates healing. On January 2, 2001, the Company sold its Procuren operations to Cytomedix, Inc. Under the terms of the agreement, Cytomedix acquired the assets associated with the Procuren operations and becomes the exclusive manufacturer of Procuren while Curative retains exclusive distribution rights for Procuren in the United States.

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### Strategy

The Company's objective is to enhance its position as a leading disease management company in the chronic wound care market. The Company's growth strategy is to continue to improve and refine the Wound Management Program while broadening its delivery models to cover the entire continuum of care for wound

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management. Key elements of this strategy include:

Expand Into Other Disease Management Areas. Longer term, the Company is considering capitalizing on its disease management expertise by expanding its services into other disease management areas to meet the growing continuum of health care needs of patients and providers. The Company believes that there is a significant market potential for the delivery of other disease management services through its existing network of Wound Care Centers. The possibilities for expansion of the Company's disease management services include the treatment of chronic wound related diseases such as diabetes, as well as non-chronic wound related diseases such as cardiovascular disorders. In February 2001, the Company signed an agreement forming a strategic alliance with E2M Health Services, a privately held company. Under the agreement the Company will provide to select hospitals a diabetes management model owned by E2M. The program is in the early stages of implementation and there can be no assurances that the program will be successful. On March 20, 2001, the Company announced it had signed a definitive agreement to purchase all of the outstanding shares of Millennium Health, Inc. for \$32.3 million and the assumption and repayment of approximately \$5 million in debt, for a total of \$37.3 million in cash. Millennium is a privately held specialty pharmaceutical company engaged in the distribution of biopharmaceuticals.

Continue to Develop the Company's Nationwide Network of Outpatient Wound Care Centers. The Company intends to continue to establish additional outpatient Wound Care Centers on or near the campuses of acute care hospitals. The Company had 126 outpatient centers as of the end of 2000, and the Company believes the opportunity for further growth remains substantial. The Company has identified over 300 additional markets in the United States which the Company believes have the population necessary to support a dedicated wound care program. The Company believes hospitals are continually seeking low cost, high quality solutions to wound management such as those provided by the Company. In addition, the Company believes it enables its hospital clients to differentiate themselves from their competitors through better wound care treatment outcomes, reduced costs due to decreased inpatient lengths of stay and increased revenue through the introduction of new patients. As a result, the Company believes there is a significant opportunity for the Company to continue to expand its Wound Care Center operations through affiliation with acute care hospitals. Additionally in response to the needs of acute care hospitals in smaller rural markets the Company developed a wound care program which effectively makes the Company's value added services available in components. Through this program, hospitals in smaller markets can purchase components of the Wound Management Program through a licensing agreement which enables these hospitals to manage wound care patients. As of December 31, 2000, the Company has established three of the rural hospital wound care programs.

Develop New Service Models to Enhance Market Penetration. The Company is actively developing new service models in new health care delivery settings such as inpatient programs for acute care hospitals and long term care facilities (e.g., nursing homes and long term acute care hospitals). These new service models are being operated as a service from the Company's existing hospital outpatient Wound Care Centers. Pressure sores, the most common form of chronic wound, usually occur among nursing home, acute care and home patients due to the sedentary lifestyle associated with those care settings. As the Company further develops its inpatient service models, the Company believes it will become more capable of penetrating the large pressure sore market.

Provide a Comprehensive Managed Care Product. In addition to providing new revenue opportunities, the Company believes its ability to provide its services as a comprehensive managed care product in a number of settings will increase its attractiveness to managed care payors seeking to provide a continuum of care while reducing risk. With its Wound Management Program and increasing presence in multiple health care delivery settings, the Company can offer managed care

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payors a shared risk relationship which the Company believes will provide better patient healing outcomes and more cost-effective services for subscribers. Further, in 1998 the Company entered into a development and license agreement with Accordant Health Services, Inc., a private disease management company. As a strategic partner, Accordant has been licensed by the Company to develop and market a wound care disease management program to the managed care market. The Company has not generated any revenue from this business. Additionally, the Company has made a \$4 million equity investment in Accordant.

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Enhance the Company's Wound Management Program. The Company currently offers a unique Wound Management Program which includes assessment, vascular studies, revascularization, infection control, wound debridement, growth factor therapy, skin grafting, nutrition, protection devices, patient education, referrals and effective management of care through patient/provider communications. In addition, the Company is continually exploring and seeking advances in wound care management services and products which could enhance its current Wound Management Program. The Company is actively pursuing such advances through the continuous development of its current services, and the consideration of acquisition opportunities and co-marketing arrangements with other providers of wound care products and services. Current product offerings include furnishing hyperbaric oxygen services to interested hospital partners, alliance with companies marketing new wound care technologies and developing clinical research capabilities for the wound care center network.

### Wound Care Operations

The Company's wound care operations offer health care providers the opportunity to create specialty wound care departments designed to meet the needs of chronic wound patients. The initial focus of the Company's wound care operations has been hospital outpatient Wound Care Centers. The Company is currently expanding its programmatic approach to wound care to inpatient settings such as acute care hospitals and long term care facilities. In these settings the Company is establishing a wound care program with existing hospital Wound Care Centers to offer an inter-disciplinary approach to the treatment of chronic wounds in the inpatient settings.

Hospital Outpatient Wound Care Centers. Outpatient Wound Care Centers, located on or near the campuses of acute care hospitals, represent the Company's core business. A typical hospital outpatient Wound Care Center consists of 2,500 square feet of space comprising four to eight exam rooms, a nursing station, and physician and administrative offices. These Wound Care Centers are designed to deliver all necessary outpatient services for the treatment of chronic wounds, with the hospital providing any inpatient care, such as revascularization or surgical debridement.

The Company currently offers its hospital clients two outpatient Wound Care Center models: a management model and an "under arrangement" model, with a primary focus on developing management models. The differences between these two models relate primarily to the employment of the clinical staff at the Wound Care Center and the basis for the management fees paid to the Company. In the management model, generally the only employee of the Company at the Wound Care Center is the Wound Care Center's Program Director, and the Company generally receives a fixed monthly management fee and a variable case management fee. In the "under arrangement" model, the Company employs all of the clinical and administrative staff (other than physicians) at the Wound Care Center and the Company generally receives fees based on the services provided to each patient. In all other material respects the two models are identical. In both models, physicians remain independent and the Company recruits and trains the physicians and staff associated with the Wound Care Center. The physicians providing

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services at a Wound Care Center are recruited by the Company primarily from among the doctors who work at the hospital and practice in related areas. In addition, in both models the Company develops, manages and provides Procuren for the Wound Care Center, and the Company's field support departments provide the staff at each Wound Care Center with clinical oversight, quality assurance, reimbursement consulting, sales and marketing and general administrative support services. The terms of the Company's contract with each hospital are negotiated individually. Generally, in addition to the management fees described above, the contracts provide for development fees and Procuren fees charged to the hospital based on utilization. In both models, the hospital and the physician bill the patient for the services provided and are responsible for seeking reimbursement from insurers or other third party payors.

The first Wound Care Center opened in 1988 and there are currently 126 hospital outpatient Wound Care Centers in operation in 33 states. The Company has entered into contracts or letters of intent with 3 hospitals to open additional Wound Care Centers. The Company's hospital client base ranges from medium-sized community-based hospitals to large hospitals affiliated with national chains and not-for-profit hospitals in local markets. The Company selects hospital clients based on a number of criteria. A suitable hospital client typically can accommodate at least 200 inpatient beds, offers services which complement the Wound Management Program, including physician specialists in the areas of general, plastic and vascular surgery, endocrinology and diabetes, is financially stable and has a solid reputation in the community it serves. Of the Company's 126 current hospital outpatient Wound Care Centers, 94 are management model centers and 32 are "under arrangement" model centers. The Company anticipates that many of the existing under arrangement models will be converted to management models in 2001.

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In expanding its product offering, the Company furnishes hyperbaric oxygen therapy (HBO) services to interested hospital partners operating outpatient wound care centers. These services generally include furnishing HBO chambers and managing the program. As of December 31, 2000 the Company managed 19 HBO programs at existing hospital outpatient Wound Care Centers which accounted for approximately 3% of the Company's revenue.

At December 31, 2000, the Company had management contracts with 11 acute care hospitals directly or indirectly owned by HCA - The Health Care Company ("HCA") formerly known as Columbia/HCA. These hospitals collectively accounted for approximately 11% of the consolidated revenues of the Company for the year ended December 31, 2000. In 2000 there were 14 HCA hospital contracts that terminated and closed. The Company expects that the HCA hospitals collectively will account for less than 10% of future revenues.

Inpatient Wound Care Programs. The Company is addressing the needs of the inpatient wound care market through the development of new inpatient programs. These patients often have pressure sores resulting from inactivity. While not typically as severe as diabetic or venous stasis ulcers, pressure sores represent the largest segment of the chronic wound market. The Company has developed an inpatient program for its affiliated acute care hospitals with outpatient wound care centers that is directed at assisting those hospitals in identifying and managing inpatients in the acute care hospital that are at risk or who suffer from chronic wounds. The program is primarily directed at reducing the length of stay of those patients in the acute care setting. The Company has also developed a Wound Outreach Program, whereby a nurse practitioner or physician assistant from an affiliated outpatient wound care center provides wound related services to long term care facilities in surrounding catchment areas. As of December 31, 2000, the Company has contracts to manage 10 such inpatient programs at existing acute-care hospital customers. Further, the

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Company has contracts to manage 11 programs that provide outreach wound care services to local long-term care facilities. Both programs are in the early stages of development and implementation. There can be no assurance that these programs will be successful in the future.

### Contract Terms and Renewals

Substantially all of the revenues of the Company are derived from management contracts with acute care hospitals. The contracts generally have initial terms of three to five years and many have automatic renewal terms unless specifically terminated. During the year ending December 31, 2001, the contract terms of 52 of the Company's management contracts will expire, including 40 contracts which provide for automatic one-year renewals. The contracts often provide for early termination either by the client hospital if specified performance criteria are not satisfied, or by the Company under various other circumstances. Historically, some contracts have expired without renewal and others have been terminated by the Company or the client hospital for various reasons prior to their scheduled expiration. During 2000, 9 hospital contracts expired without renewal and an additional 31 hospital contracts were terminated prior to their scheduled expiration by the client hospital and in some cases by the Company. Generally, the Company elects to negotiate a mutual termination of a management contract if a client hospital desires to terminate the contract prior to its stated term. The continued success of the Company is subject to its ability to renew or extend existing management contracts and obtain new management contracts. Hospitals choose to terminate or not to renew contracts based on decisions to terminate their programs or to convert their programs from independently managed programs to programs operated internally. There can be no assurance that any hospital will continue to do business with the Company following expiration of its management contract or earlier, if such management contract is terminable prior to expiration. In addition, any changes in the Medicare program or third party reimbursement levels which generally have the effect of limiting or reducing reimbursement levels for health services provided by programs managed by the Company could result in the early termination of existing management contracts and would adversely affect the ability of the Company to renew or extend existing management contracts and to obtain new management contracts. In connection with the sale of its Procuren operations to Cytomedix, Inc. in January 2001, the Company will be required to modify its contracts with its hospital customers relative to the provision of Procuren. Under its existing contracts, the Company has the responsibility to provide the hospital with access to Procuren. The Company will be required to modify the contract language to make a good faith effort to provide the hospital access to Procuren. There can be no assurance that the Company will be able to modify the contract or that hospitals will not terminate the contracts. The termination or non-renewal of a material number of management contracts could result in a significant decrease in the Company's net revenues and could have a material adverse effect on the Company's business, financial condition and results of operations.

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### Managed Care Operations

The Company's managed care strategy is currently focused on marketing Wound Care Center services to local managed care organizations ("MCOs") in concert with its hospital clients' efforts to promote all hospital-based services to such MCOs. In those instances where hospital clients are unable to establish contractual relations with a large local MCO or in those markets where the Company operates freestanding Wound Care Centers where it would otherwise be appropriate, the Company seeks to establish relations directly with MCOs. The Company's contractual arrangements with MCOs, which will vary based upon the needs of the particular MCO, are expected to provide for the Company to receive



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compensation on a fee-for-service, fixed case rate or at-risk capitation basis. While the Company anticipates that initially most of its managed care contracts will be fee-for-service or case rate contracts, it expects that at-risk capitation could become a contracting method.

The Company's longer term managed care strategy is to establish a wound care carve-out product with selected MCOs. The Company has begun to develop tools to help MCOs assess their current wound care experiences (both clinical outcomes and costs) against the Company's Wound Management Program in order to demonstrate that a wound care carve-out product can provide added value. In order to make itself more attractive to MCOs by offering a broader disease management program, the Company intends, where appropriate, to align itself with other disease management companies focused on case management or complementary diseases such as cardiac care venous, stasis management and diabetes. The Company expects that contracts for a carve-out product will provide at-risk arrangements with MCOs (i.e., fixed case rates or capitation).

In 1998, the Company entered into a development and license agreement with Accordant Health Services, Inc. a private disease management company. As a strategic partner, Accordant has been licensed by the Company to develop and market a wound care disease management program to the managed care market including, Health Maintenance Organizations (HMO's), Preferred Provider Organization (PPO's) and insurance companies. The wound care disease management program being developed will include impact models, assessment/intervention tools and outcome reporting. The model is expected to be a "carve in" approach whereby registered nurses will monitor health plan subscribers identified as chronic wound patients through care management programs. The case management software supports and prompts collection of disease specific data points utilized by the registered nurses to assist patients in caring for the chronic condition, identify and monitor patients at risk and educate patients in preventative measures. The nurses conduct proactive patient monitoring that assesses patient compliance, complications, functional and clinical health status and patient satisfaction. The respective health plans are then provided reports. The program was launched early in 2000 and has not generated any revenues. There can be no assurances that the program will be successful in the future. Additionally, the Company has made a \$4 million equity investment in Accordant.

To date, the Company's managed care operations have been limited. Although the Company or its hospital clients have been reimbursed for wound treatment by a number of MCOs on a case-by-case basis, the Company currently has no contracts that require or incentivize subscribers to use the Company's wound care services. There can be no assurance that the Company will be able to successfully expand its managed care operations.

### Community Education and Marketing

The Company's community education and marketing strategy consists of a two-fold approach involving the development of new wound care programs as well as growth in operating Wound Care Centers. In 2000, the Company realigned its organizational structure to improve operating effectiveness and efficiency. To accomplish this, the Company has divided the United States into two operating divisions each headed by a Divisional Vice President with the support of Regional Directors. The professional community education component is locally managed and conducted by the Wound Care Center Program Directors under the supervision of the Regional Directors. The primary community education efforts are directed at physicians and other healthcare professionals to expand community awareness of the Wound Care Centers.

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In addition, community education marketing plans are developed each year at each Wound Care Center. The development and execution of the plan is the responsibility of the Program Director at the Wound Care Center along with the Corporate Marketing Department. The plan details the anticipated marketing for the year including radio, print and television advertising as well as professional symposiums and other community education. The Company markets the Wound Care Center concept to hospitals as a therapeutic "Center of Excellence." The Company believes that having a Wound Care Center can differentiate a hospital from its competitors and can increase the hospital's revenues through the introduction of new patients, which leads to an increase in ambulatory surgeries, X-rays, laboratory tests and inpatient surgeries, such as debridements, vascular surgeries and plastic surgeries. The Company has demonstrated that Wound Care Centers provide significant incremental revenues to participating hospitals, and therefore provide an attractive economic opportunity for hospitals at the same time being more cost effective in terms of total healthcare dollars expanded. Potential benefits to treating physicians include the healing of difficult-to-heal wounds and an expansion of the physician's practice.

The Company's efforts to develop new wound management programs at acute-care hospitals is headed by a Senior Director of Development. The Senior Director of Development is responsible for the activities of the Directors of Development and Business Development Managers. The primary role of the Directors of Development and Business Development Managers is the development of new wound care programs. As of December 31, 2000, the Company had two Directors of Development and six Business Development Managers.

### Proprietary Rights

The Company's success depends in part on its ability to enforce patents, maintain trade secret protection and operate without infringing on or violating the proprietary rights of third parties. The Company also relies, in part, on proprietary know-how and technological advances which it seeks to protect by measures such as confidentiality agreements with its employees, consultants and other parties with whom it does business. There can be no assurance that these agreements will not be breached, that the Company would have adequate remedies for any breach, or that the Company's trade secrets and proprietary know-how will not otherwise become known, be independently discovered by others or found to be unprotected.

The Company has registered the name "Wound Care Center" as a trademark in the United States for use in connection with the Company's wound care operations.

### Government Regulation

The Company's Wound Care Centers and the production and marketing of its products and services are subject to extensive regulation by numerous governmental authorities in the United States, both federal and state. Although the Company believes that it is currently in substantial compliance with applicable laws, regulations and rules, the Company received a Warning Letter from FDA in March 1998 admonishing the Company for several alleged deviations from good manufacturing practices at one of the Company's Wound Care Centers. The Company has responded to the Warning Letter and believes that it has adequately addressed FDA's concerns. However, there can be no assurance that FDA, another governmental agency or a third party will not contend that certain aspects of the Company's operations or procedures are subject to or are not in compliance with such laws, regulations or rules or that the state or federal regulatory agencies or courts would interpret such laws, regulations and rules in the Company's favor. The sanctions for failure to comply with such laws, regulations or rules could include denial of the right to conduct business, significant fines and criminal penalties. Additionally, an increase in the

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complexity or substantive requirements of such laws, regulations or rules could have a material adverse effect on the business, financial position and results of operations of the Company.

The FDA regulates drugs and biologics that move in interstate commerce and requires that such products receive pre-marketing approval based on evidence of safety and efficacy. Since Procuren was produced at one of the Company's blood processing facilities in the state where the Wound Care Center which will dispense the Procuren is located and so is not intended to be shipped across state lines, the Company believes, based on the advice of its counsel, that under current law and regulations, FDA approval is not required for the Company to distribute and sell Procuren through the Wound Care Centers on an intrastate basis. The FDA is currently reassessing its regulation of other autologous and somatic cell products and has publicly stated that it believes that if any component of a drug or biological or if any patient receiving such substance moves in interstate commerce, a sufficient nexus with interstate commerce exists for FDA to require pre-marketing approval and licensure. The FDA has indicated to the Company that the status of Procuren would be addressed by the FDA in a future Federal Register publication, possibly as a part of the FDA's overall regulation of other autologous and somatic cell products. While the production of Procuren includes components that are shipped in interstate commerce, to date the FDA has not determined that Procuren, as currently prepared, is subject to licensure or pre-market approval. However, in the March 1998 FDA Warning Letter, FDA objected to the Company providing Procuren to patients who reside in a state other than the one in which the Wound Care Center is located. The Company ceased providing Procuren to out-of-state patients.

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Because FDA approval has not been required for Procuren, and state approvals are generally limited to licensing of facilities, there has been no independent determination of its efficacy by any governmental entity. If the FDA were to require submission of a biologics license application ("BLA") as a condition for the continued distribution and sale of Procuren, the Company might have to demonstrate the safety, purity, potency and effectiveness of the product through extensive clinical trials. Neither the Company nor any third party has conducted the controlled clinical trials required to establish Procuren's efficacy. Compliance with the requirements for a BLA is time-consuming and involves the expenditure of substantial resources. There can be no assurance that the Company would undertake to establish efficacy or to obtain or maintain the necessary FDA approvals to distribute Procuren. Any change in current regulatory interpretations by or positions of state officials where the Wound Care Center's are located could adversely affect the Company's distribution of Procuren within those states.

Various state and federal laws regulate the relationships between providers of health care services and physicians and other clinicians, including employment or service contracts, investment relationships and referrals for certain designated health services. These laws include the fraud and abuse provisions and referral restrictions of the Medicare and Medicaid statutes, which prohibit the solicitation, payment, receipt or offering of any direct or indirect remunerations for the referral of Medicare and Medicaid patients or for the ordering or providing of Medicare or Medicaid covered services, items or equipment. Violations of these provisions may result in civil or criminal penalties for individuals or entities including exclusion from participation in the Medicare or Medicaid programs. Several states have adopted similar laws that cover patients in private programs as well as government programs. Because the anti-fraud and abuse laws have been broadly interpreted, they limit the manner in which the Company can operate its business and market its services to, and contract for services with, other health care providers.

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Additionally, federal and some state laws impose restrictions on physician's referrals for certain designated health services to entities with which the physician has a financial relationship, but there is considerable uncertainty about some facets of these laws, especially the federal law since there are no final rules interpreting the law. The Company believes its operations do not violate these restrictions to the extent applicable. Periodically there are efforts to expand the scope of these referral restrictions from its application to government health care programs to all payors, and to additional health services. Certain states are considering adopting similar restrictions or expanding the scope of existing restrictions. There can be no assurance that the federal government or other states in which the Company operates will not enact similar or more restrictive legislation or restrictions or interpret existing laws and regulations in a manner that could under certain circumstances limit the manner in which the Company can operate its business and have a negative impact on the Company's business, financial condition and results of operations.

The Company has been informed of two separate complaints filed under the Federal Civil False Claims Acts alleging that the Company's relationship with its hospital customers violated certain Medicare regulations (See Item 3 Legal Proceedings for a further discussion on these matters). The Company disagrees with these characterizations of its contractual arrangements, its services, and the fees it charges for those services. If the government were to conclude that the Company engaged in any misconduct, it could result in affecting the Company's relationship with all its hospital customers, substantial monetary fines and penalties, and exclusion from governmental healthcare programs which could have a material adverse effect on the business, financial position and results of operations of the Company.

The laws of many states prohibit physicians from sharing professional fees with non-physicians and prohibit non-physician entities, such as the Company, from practicing medicine and from employing physicians to practice medicine. The laws in most states regarding the corporate practice of medicine have been subjected to limited judicial and regulatory interpretation. The Company believes its current and planned activities do not constitute prohibited fee splitting or violate any prohibition against the corporate practice of medicine. There can be no assurance, however, that future interpretations of such laws will not require structural or organizational modifications of the Company's existing business or have a negative impact on the Company's business, financial addition and results of operations.

Pursuant to the federal Occupational Safety and Health Act, employers have a general duty to provide a work place for their employees that is safe from hazard. The U.S. Occupational Safety and Health Administration ("OSHA") has issued rules relevant to certain hazards that were found in the Company's blood processing facilities. In addition, OSHA issued a standard in 1992 applicable to protection of workers from blood-borne pathogens. Failure to comply with this standard relating to blood-borne pathogens, other applicable OSHA rules or with the general duty to provide a safe work place could subject the Company to substantial fines and penalties.

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### Third Party Reimbursement

The Company, through its wound care operations, provides contractual management services for fees and sells Procuren to acute care hospitals and other health care providers. These providers, in turn, seek reimbursement from third party payors, such as Medicare, Medicaid, health maintenance organizations and private insurers, including Blue Cross/Blue Shield plans. The availability of reimbursement from such payors has been a significant factor in the Company's

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ability to increase its revenue streams and will be important for future growth.

Each third party payor formulates its own coverage and reimbursements policies. In 1992, the Health Care Financing Administration ("HCFA"), the agency that administers the Medicare program nationally, published a national coverage decision denying coverage for Procuren based on its determination that the safety and efficacy of Procuren had not been established and so the use of Procuren was not "reasonable and necessary" within the meaning of applicable law. Although the Company has not, and the Company believes that its clients have not, in general experienced difficulty in securing third party reimbursement for Wound Care Center services and the use of Procuren from private insurers, some hospitals have experienced denials, delays and difficulties in obtaining such reimbursement. In some cases where Procuren reimbursement has been denied by a payor, the hospitals have ceased providing Procuren to patients whose only means of payment is through such payor. To the Company's knowledge, no widespread denials have been received by hospitals regarding reimbursement for other Wound Care Center services or reimbursement of management fees charged by the Company to its hospital clients. The Company discusses coverage and reimbursement issues with its hospital clients and third party payors on a regular basis. Such discussions will continue as the Company seeks to assure sufficient payments from third party payors to the Company's hospital customers for services managed by the Company and for Procuren so that the Company's hospital customers and potential customers find it financially feasible to renew contracts or enter into contracts with the Company. Although no individual coverage and reimbursement decision is material to the Company, a widespread denial of reimbursement coverage for Procuren or other services would have a material adverse effect on the Company's business, financial position and results of operations.

Medicare regulations limit reimbursement for health care charges paid to related parties. A party is considered "related" to a provider if there is significant common ownership or common control by the provider. On occasion, fiscal intermediaries under contract to HCFA to audit hospital Medicare claims have asserted that one test for determining control for this purpose is whether the percentage of the total revenues of the party received from services rendered to the provider is so high that it effectively constitutes control. Although the Company believes it does not currently receive sufficient revenues from any customer, including HCA, that would make it a related party, it is possible that such regulations could limit the number of management contracts that the Company could have with HCA or any other client.

As a result of the Balanced Budget Act of 1997, HCFA implemented the Outpatient Prospective Payment System ("OPPS") for all hospital outpatient department services furnished to Medicare patients beginning August 2000. Under the system, a predetermined rate is paid to hospitals for clinic services rendered, regardless of the hospitals cost. The new payment system does not provide comparable reimbursement for previously reimbursed services and the payment rates for many services are insufficient for many of the Company's hospital customers, resulting in revenue and income shortfalls for the wound care center operations managed by the Company on behalf of the hospitals. As a result, the Company has renegotiated and modified most of its management contracts which has resulted in reduced revenue and income to the Company from the modified contracts and in numerous cases contract termination. The Company expects that contract renegotiation and modification with many of its hospital customers will continue which could result in further reduced revenues and income to the Company from those contracts and even contract terminations. The results could have a material effect on the Company's business, financial condition and results of operations.

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The Wound Care Centers managed by the Company on behalf of acute care hospitals are treated as "provider based entities" for Medicare reimbursement purposes. This designation is required for the hospital based program to be covered under the Medicare outpatient reimbursement system. With OPPTS, HCFA published criteria for determining when programs may be designated "provider based entities". The interpretation and application of these criteria are not entirely clear and there is a risk that some of the programs managed by the Company could be found not to be "provider based entities". Although the Company believes that the programs it manages meet the current criteria to be designated "provider based entities", a widespread denial on such designation would have a material adverse effect on the Company's business, financial position and results of operations.

Political, economic and regulatory influences are subjecting the health care industry in the United States to fundamental change. Although Congress has failed to pass comprehensive health care reform legislation thus far, the Company anticipates that Congress and state legislatures will continue to review and assess alternative health care delivery and payment systems and may in the future propose and adopt legislation effecting fundamental changes in the health care delivery system. It is possible that future legislation enacted by Congress or state legislatures will contain provisions which may materially adversely affect the business, financial position and results of operations of the Company or may change the operating environment for the Company's targeted customers (including hospitals and managed care organizations). Health care industry participants may react to such legislation or the uncertainty surrounding related proposals by curtailing or deferring expenditures and initiatives, including those relating to the Company's programs and services. It is also possible that future legislation either could result in modifications to the nation's public and private health care insurance systems, which could affect reimbursement policies in a manner adverse to the Company, or could encourage integration or reorganization of the health care delivery system in a manner that could materially affect the Company's ability to compete or to continue its operations without substantial changes. The Company cannot predict which other legislation relating to its business or to the health care industry may be enacted, including legislation relating to third party reimbursement, or what effect any such legislation may have on its business, financial position and results of operations.

### Competition

The Company's principal competition in the chronic wound care market consists of specialty clinics that have been established by some hospitals or physicians. Additionally, there are a number of private companies which provide wound care services through a HBO program format. In the market for disease management products and services, the Company faces competition from other disease management facilities, general health care facilities and service providers, pharmaceutical companies, biopharmaceutical companies and other competitors. Many of these companies have substantially greater capital resources and marketing staffs, and greater experience in commercializing products and services, than the Company. In addition, recently developed technologies, or technologies that may be developed in the future, are or may be the basis for products which compete with the Company's chronic wound care products and which may be in direct competition with Procuren. There can be no assurance that the Company will be able to enter into co-marketing arrangements with respect to these products, or that the Company will be able to compete effectively against such companies in the future.

### Employees

As of December 31, 2000, the Company employed 480 full-time employees, of which 401 employees were in the wound care operations, 34 employees were in Procuren production, 14 employees were in technical support and 31 employees

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were in general administration and finance. The Company expects to add additional personnel to its wound care operations in the next year. The Company believes that its relations with its employees are good.

### Item 2 Properties

The Company's headquarters and technical support facility is located in Hauppauge, Long Island, New York. The Company leases this 30,000 square foot facility under a lease through 2005. The Company believes that its facilities are adequate and suitable for its operation. The Company also leases 27 production facilities totaling 53,175 square feet. In January 2001, the Company sold its Procuren operations and transferred the leased facilities to the buyer, Cytomedix, Inc. In most leases, the Company continues to be named a party to the lease. The Company's facilities at the hospital outpatient Wound Care Centers are owned or leased by the hospitals.

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### Item 3 Legal Proceedings

In April 1999, the Company learned through a press release from the United States Department of Justice that a complaint was filed by a "whistleblower" relator under the Federal Civil False Claims Act alleging that the Company made improper charges to Columbia/HCA hospitals as well as other hospitals. The case, filed as United States ex. rel. Joseph "Mickey" Parslow v. Columbia/HCA Healthcare Corporation and Curative Health Services, Inc. in the Federal District Court for the Middle District of Florida, Tampa Division, has been transferred to the United States District Court for the District of Columbia.

Under the False Claims Act, the whistleblower relator could be entitled to approximately 15% of any amounts obtained from the defendants. This potential bounty under the False Claims Act was intended by Congress to motivate private persons to bring actions of this nature.

In February 2001, the Office of the U.S. Attorney for the Middle District of Florida informed the Company, through its outside legal counsel, that it was the subject of a criminal investigation concerning its business relationships with the former Columbia/HCA.

In February 2001, the DOJ initiated settlement discussions with the Company and the Company expects that this process will continue. On March 15, 2001, the government filed its amended complaint in the Parslow case. The amended complaint alleges that, pursuant to the Company's management services contracts with various Columbia/HCA hospitals, Company personnel provided services which the government characterizes as marketing and advertising services. The complaint further alleges that these services are not reimbursable under the Federal Medicare Program and that the hospitals submitted false claims to the Medicare Program by including the Company management fees on cost reports submitted by the hospitals to Medicare. The complaint contends that the Company, by providing these alleged marketing and advertising services and by charging a management fee for its services, caused the submission of false claims by the hospitals. Further, the complaint alleges that the Company, through its employees, recommended the services of Wound Care Centers and Columbia/HCA hospitals to patients and physicians. The complaint alleges that the Company arranged for patients to receive medical services from Columbia/HCA hospitals. The government contends that the management fees the Company received from the Columbia/HCA hospitals were illegal payments in exchange for patient referrals to Columbia/HCA hospitals. The hospitals filed these cost reports claiming reimbursement of the management fees. The government alleges that the hospital cost reports were false claims because the Company's management fees were improper under the Federal Medicare-Medicaid anti-kickback statute.

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On March 28, 2001, the Company entered into an agreement with the Department of Justice in which the government agreed to refrain from taking any action seeking to enjoin or prevent the closing of the Millennium acquisition. On its part, while settlement discussions continue, Curative agreed to secure a letter of credit for \$8 million in favor of the government which could be accessed in the case of a final, non-appealable judgment or settlement. Curative also agreed to suspend its stock repurchase program and to provide the government with prior notice of material, non-ordinary course of business transactions. The amount of the anticipated letter of credit does not reflect an evaluation or estimate of Curative's ultimate or likely liability in connection with the ongoing government investigations.

The Company has a formal compliance program and management believes that the Company is in material compliance with applicable laws and ethical business practices. In the conduct of its business, the Company has relied on the advice and guidance of nationally recognized law firms in structuring its business relationships with its hospitals. In this pending litigation, the Company intends to defend itself vigorously. An adverse result in this qui tam action could have a material adverse effect on the Company's business, financial condition and/or results of operations.

In January 2000, the Company disclosed that a qui tam action was filed under seal in the United States District Court for the Southern District of New York in 1998. Pursuant to a court order, the seal under which this action was filed was modified to, among other things, permit the Company to disclose the allegations in the complaint in its periodic filings with the Securities and Exchange Commission and as required to fulfill its disclosure obligations under federal and state securities laws. The complaint was filed by a "whistleblower" relator under the Federal Civil False Claims Act and names the Company and hospitals with which it does business as defendants. The portion of the qui tam action related to Columbia/HCA hospitals has been transferred to the United States District Court for the District of Columbia.

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The complaint alleges, among other things, that the defendants violated the "anti-kickback" statute in part because a portion of the Company's fee was based upon the number of new patients seen in the wound care centers managed by the Company; engaged in prohibited self-referral transactions; improperly billed Medicare for costs and services not covered by Medicare; double billed Medicare for professional services; and submitted false claims to Medicare. Certain of the allegations are similar to the allegations made in the United States ex. rel. Joseph "Mickey" Parslow v. Columbia/HCA Healthcare Corporation and Curative Health Services, Inc. qui tam action. The complaint in the Southern District of New York action asserts that as a result of the allegedly wrongful conduct, the United States suffered damages and that the defendants are liable to the United States for three times the amount of the alleged damages plus civil penalties of up to \$10,000 per false claim.

The United States has not yet decided whether to intervene in the portion of the New York qui tam action that remains in the jurisdiction of the New York Court. If it does not, then the plaintiff relator may pursue the claims on his/her own or may withdraw the complaint. On March 15, 2001, however, the government declined to intervene against the Company in that portion of the qui tam action related to the Company's business with Columbia/HCA that was transferred to the U.S. District Court for the District of Columbia.

The Company disagrees with the characterizations in that complaint of its contractual arrangements, its services, and the fees it charges for those services, and intends to defend itself vigorously in this action. An adverse



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result in this qui tam action could have a material adverse effect on the Company's business, financial condition and/or results of operations.

Further, if the government were to conclude that the Company engaged in any misconduct, it could result in affecting the Company's relationship with all of its hospital customers, substantial monetary fines and penalties, and even exclusion from the governmental healthcare programs which could have a material adverse effect on the business, financial position and results of operations of the Company.

Subsequent to the disclosure of the Parslow "whistleblower" lawsuit and Department of Justice action, the Company and , in some cases, certain of its officers were named in four shareholder lawsuits, namely:

Ernest Hack versus Curative Health Services, Inc et. al.

Scott Thompson versus Curative Health Services, Inc. et al.

Tirdad Thompson versus Curative Health Services, Inc. et al.

William Nolan versus Curative Health Services, Inc. et al.

All suits were filed in the United States District Court for the Eastern District of New York. The four shareholder lawsuits have been consolidated into one class-action lawsuit. The lawsuits allege generally that the Company and its officers violated federal securities laws by disseminating materially false and misleading statements and failing to disclose material information relating to the contractual relationships with Columbia/HCA Healthcare Corporation and other hospitals, and certain purported misrepresentations in connection therewith. The suit seeks to recover unspecified damages from defendants. The Company denies the allegations and intends to vigorously defend the suits. The Court denied defendant's motion to dismiss and discovery is currently ongoing. An adverse result in this lawsuit could have a material adverse effect on the Company's business, financial condition and/or results of operations.

Notwithstanding its belief that it has complied with the law and its intention to defend itself vigorously, if it is determined to be in the best interests of the Company, it is possible that the Company will eventually choose to enter into a settlement with the government related to the qui tam actions and/or the plaintiffs in the securities litigation lawsuit that could have a material adverse effect on the Company's business, financial condition and/or results of operations.

In addition, the Company, in the ordinary course of business, is the subject of or party to various lawsuits, the outcome of which, in the opinion of management, will not have a material adverse effect on its financial position or results of operations.

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### Item 4 Submission of Matters to a Vote of Security Holders

None.

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## PART II

### Item 5 Market for the Registrant's Common Equity and Related Stockholder Matters

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The Company's common stock is traded on The Nasdaq Stock Market under the symbol "CURE". As of March 15, 2001, there were approximately 205 holders of record and approximately 3,650 beneficial shareholders of the Company's common stock. The Company has not paid any cash dividends since its inception. The Company currently does not intend to pay cash dividends in the foreseeable future but intends to retain all earnings, if any, for use in its business operations.

The following table sets forth, for the fiscal periods indicated, the range of high and low sales prices of the common stock as quoted on The Nasdaq National Market System:

|                     | High     | Low      |
|---------------------|----------|----------|
| 2000                |          |          |
| Fourth Quarter..... | \$ 6.00  | \$ 5.375 |
| Third Quarter.....  | 6.594    | 5.063    |
| Second Quarter..... | 6.188    | 5.188    |
| First Quarter.....  | 8.063    | 5.50     |
| 1999                |          |          |
| Fourth Quarter..... | \$ 8 7/8 | \$ 4 3/4 |
| Third Quarter.....  | 6 1/16   | 4 1/2    |
| Second Quarter..... | 12 1/8   | 3 3/4    |
| First Quarter.....  | 30 3/4   | 9 7/8    |

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### Item 6 Selected Consolidated Financial Data

Five year selected consolidated financial data and other operating information of Curative Health Services, Inc., and subsidiaries follow:

|   | Year Ended December 31, |            |            |           |
|---|-------------------------|------------|------------|-----------|
|   | 2000                    | 1999       | 1998       | 1997      |
| (In thousands, except per share and operating |                         |            |            |           |
| Statement of Operations Data:                 |                         |            |            |           |
| Revenues .....                                | \$ 77,691               | \$ 101,209 | \$ 103,987 | \$ 87,906 |
| Costs and operating expenses:                 |                         |            |            |           |
| Costs of products sales and services .        | 51,073                  | 59,945     | 56,035     | 48,200    |
| Selling, general and administrative ..        | 29,441                  | 26,273     | 23,358     | 22,617    |
|   | -----                   | -----      | -----      | -----     |
| Total costs and operating expenses .....      | 80,514                  | 86,218     | 79,393     | 70,817    |
|   | -----                   | -----      | -----      | -----     |
| (Loss) income from operations                 |                         |            |            |           |
| before interest income .....                  | (2,823)                 | 14,991     | 24,594     | 17,089    |
| Interest income .....                         | 2,609                   | 2,037      | 2,660      | 2,666     |
|   | -----                   | -----      | -----      | -----     |
| (Loss) income before income taxes .....       | (214)                   | 17,028     | 27,254     | 19,755    |
| Income taxes .....                            | (86)                    | 6,566      | 10,217     | 3,293     |
|   | -----                   | -----      | -----      | -----     |
| Net (loss) income .....                       | \$ (128)                | \$ 10,462  | \$ 17,037  | \$ 16,462 |
|   | =====                   | =====      | =====      | =====     |

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|   |           |           |           |           |       |
|---|-----------|-----------|-----------|-----------|-------|
| Net (loss) income per common share, basic   | \$ (0.01) | \$ .99    | \$ 1.34   | \$ 1.33   | \$    |
|   | =====     | =====     | =====     | =====     | ===== |
| Denominator for basic earnings per share,<br>weighted average common shares ..... | 8,780     | 10,559    | 12,704    | 12,404    |       |
| Operating Data:   |           |           |           |           |       |
| Wound care centers at end of period .....   | 126       | 158       | 154       | 132       |       |
| Number of new patients .....  | 59,384    | 61,539    | 58,510    | 48,722    |       |
| Balance Sheet Data:   |           |           |           |           |       |
| Working capital .....   | \$ 44,394 | \$ 55,456 | \$ 76,419 | \$ 62,583 | \$    |
| Total assets .....  | 75,166    | 87,910    | 109,121   | 84,939    |       |
| Long-term debts<br>(including capital lease obligation) .                         | -         | -         | -         | 7         |       |
| Retained earnings (deficit).....  | 24,603    | 24,731    | 14,269    | (2,768)   |       |
| Stockholders' equity .....  | 55,570    | 71,600    | 93,396    | 72,592    |       |

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### Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations

#### Overview

The Company's principal business is the delivery of chronic wound care services through its nationwide network of Wound Care Centers located in or near acute care hospitals. Substantially all of the Company's revenues are currently generated under its contracts with acute care hospitals for the management of chronic wound care programs and the production of Procuren. The Company currently operates two types of Wound Care Center contracts with hospitals: a management model and an "under arrangement" model.

In the management model, the Company provides management and support services for a chronic wound care facility owned or leased by the hospital and staffed by employees of the hospital, and generally receives a fixed monthly management fee and a variable case management fee. In the "under arrangement" model, the Company provides management and support services, as well as the clinical and administrative staff, for a chronic wound care facility owned or leased by the hospital, and generally receives fees based on the services provided to each patient. In both models, physicians remain independent, and the Company recruits and trains the physicians and staff associated with the Wound Care Center. In addition, in both models, the Company receives fees for the sale of Procuren.

Of the 126 hospital outpatient Wound Care Centers in operation as of December 31, 2000, 94 were management model Wound Care Centers, and 32 were "under arrangement" model Wound Care Centers. The Company's fees under its management contracts with acute care hospitals are paid by the hospitals directly. See "Business--Third Party Reimbursement."

#### Results of Operations

Fiscal Year 1999 vs. Fiscal Year 2000. The Company's revenues decreased from \$101.2 million in 1999 to \$77.7 million in 2000, a 23% decrease. The Company ended the year with 126 hospital based Wound Care Centers operating compared with 158 at the end of 1999. The decrease in revenue is attributable to the termination of 40 programs during 2000, renegotiation of existing contracts which resulted in reduced revenue to the Company, the conversion of 11 under

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arrangement model programs to management models which have lower revenue and expenses, and a reduction of Procuren revenues as a result of a decline in Procuren patients. Revenue at existing centers declined 16% in 2000 primarily due to such renegotiations, conversions and declining Procuren revenues. At any time during the year, 10% to 20% of the Company's contracts are being renegotiated with the client hospital for a variety of contractual terms or issues. Historically, some contracts have expired without renewal and others have been terminated by the Company or the client hospital for various reasons prior to their scheduled expiration. Hospitals are currently facing financial challenges associated with lower occupancy rates and reduced revenue streams due to pricing pressures from third party payors. Program terminations by client hospitals have been effected for such reasons as reduced reimbursement, financial restructuring, layoffs, bankruptcies or even hospital closings. Further, the Medicare program implemented a new reimbursement system during 2000 for hospital outpatient services which has reduced reimbursement rates to hospitals. The termination, non-renewal or renegotiation of a material number of management contracts could result in a continued decline in the Company's revenue. As the result of the recent legal action against the Company, further unanticipated terminations or non-renewals may take place. Additionally, new business development has been slower than normal given the legal uncertainties facing the Company. Any inability of the Company to develop new Wound Care Centers could continue the revenue decline. The Company has and expects that it will continue to modify its management contracts with many of its hospital customers which could result in reduced revenue to the Company or even contract terminations. The Company has a number of initiatives to counter the decline in revenue, although there can be no assurance that the initiatives will be successful. Total new patients to the wound care centers decreased 3% from 61,539 in 1999 to 59,384 in 2000. The total number of patients receiving Procuren therapy decreased 40% from 5,797 in 1999 to 3,470 in 2000. The percentage of patients receiving Procuren decreased from 9% in 1999 to 6% in 2000. The Company believes that this decrease is attributable to an increase in the percentage of less severe chronic wounds being treated at the Company's Wound Care Centers(R), for which physicians are less likely to prescribe Procuren(R), a lack of available reimbursement for Medicare patients, the inability of hospitals to assume collection risks due to financial constraints and increased competition from other wound healing products. The Company anticipates that the percentage of patients receiving Procuren(R) will continue to decline in the future.

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Costs of product sales and services decreased from \$59.9 million in 1999 to \$51.1 million in 2000, a 15% decrease. The decrease is attributable to reduced staffing and operating expenses of approximately \$4.2 million related to the operation of 126 programs operating at the end of 2000 as compared to 158 programs operating at the end of 1999 and reduced expenses of approximately \$1.4 million related to Procuren production. Additionally there were 16 fewer under-arrangement programs in operation at the end of 2000 as compared to the same period for 1999 at which the services component of costs is higher than at the Company's other centers due to the additional clinical staffing and expenses that these models require. For 2000 this reduction in the number of under-arrangement programs accounted for approximately \$2.0 million of the decrease in product costs and services. During 2000, the Company eliminated 58 sales positions which resulted in charges of \$550,000 for severances and related equipment write offs. Additionally, the Company recorded charges of \$601,000 related to processing facilities not sold as part of the sale of its Procuren operations to Cytomedix (see Note B) and severance and equipment write offs related to closed Wound Care Centers. As a percentage of revenues, costs of product sales and services for 2000 was 66% compared to 59% for 1999. The 7% increase is attributed to the lower revenue and negative same store sales growth which decreased margins and created an inability to leverage expenses over a

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broader revenue base.

Selling, general and administrative expenses increased from \$26.3 million in 1999 to \$29.4 million in 2000, a 12% increase. Selling, general and administrative expenses for 2000 include charges of \$4.2 million including \$2.0 million of severance expense associated with a reduction in workforce, \$.6 million in costs related to the closing of the Company's Dallas field office, \$1.0 million in reserves related to the Cytomedix purchase of the Company's Procuren operations, and equipment and lease space write offs related to the reduction in work force. Additionally legal and other costs associated with the Department of Justice actions and shareholder class action lawsuits were approximately \$.6 million higher in 2000 as compared with 1999. The Company expects to continue to incur significant legal and other related costs until the aforementioned actions are resolved. The increase in selling, general and administrative expense for 2000 as compared with 1999 was partially offset by a reduction of \$1.5 million in bad debt expense and reductions in corporate support department expenditures related to the reduced number of programs in operation. As a percentage of revenues, selling, general and administrative expenses were 38% in 2000 compared to 26% in 1999. The increase is due to the restructuring costs, higher legal expense and decreased revenue in 2000.

Interest income was \$2.6 million in 2000 compared to \$2.0 million in 1999. The increase is primarily attributable to higher average cash balances during 2000.

Net income decreased from \$10.5 million or \$.97 (diluted) per share in 1999 to a net loss of \$.1 million or \$(.01) (diluted) per share in 2000. The decrease in earnings of \$10.6 million is attributable to a reduced revenue base which impacted wound care center margins, restructuring costs and higher legal expense.

Fiscal Year 1998 vs. Fiscal Year 1999. The Company's revenues decreased from \$104.0 million in 1998 to \$101.2 million in 1999, a 3% decrease. The Company ended the year with 158 hospital based Wound Care Centers operating compared with 154 at the end of 1998. The decrease in revenue is attributable to the termination of 20 programs during 1999, renegotiation of existing contracts including 24 with Columbia/HCA Healthcare Corporation, which resulted in reduced revenue to the Company, and a reduction of Procuren revenues as a result of a decline in Procuren patients. Revenue at existing centers declined 2% in 1999 primarily due to such renegotiations and declining Procuren revenues. At any time during the year, 10% to 20% of the Company's contracts are being renegotiated with the client hospital for a variety of contractual terms or issues. Historically, some contracts have expired without renewal and others have been terminated by the Company or the client hospital for various reasons prior to their scheduled expiration. Hospitals are currently facing financial challenges associated with lower occupancy rates and reduced revenue streams due to pricing pressures from third party payors. Program terminations by client hospitals have been effected for such reasons as financial restructuring, layoffs, bankruptcies or even hospital closings. The termination, non-renewal or renegotiation of a material number of management contracts could result in a continued decline in the Company's revenue. As the result of the recent legal action against the Company, further unanticipated terminations or non-renewals may take place. Additionally, new business development has been slower than normal given the legal uncertainties facing the Company. Any inability of the Company to develop new Wound Care Centers could continue the revenue decline. Further, the Medicare program will be implementing a new reimbursement system in year 2000 for hospital outpatient services. The Company believes that the reimbursement rates to hospitals will be insufficient resulting in reduced revenues to the hospitals. The Company expects that it will need to modify its management contracts with many of its hospital customers which could result in reduced revenue to the Company or even contract terminations. The Company has a number of initiatives to counter the decline in revenue, although there can be

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no assurance that the initiatives will be successful. Total new patients to the wound care centers increased 5% from 58,510 in 1998 to 61,539 in 1999. The total number of patients receiving Procuren therapy decreased 29% from 8,164 in 1998 to 5,797 in 1999. The percentage of patients receiving Procuren decreased from 14% in 1998 to 9% in 1999. The Company believes that this decrease is attributable to an increase in the percentage of less severe chronic wounds being treated at the Company's Wound Care Centers(R), for which physicians are less likely to prescribe Procuren(R), a lack of available reimbursement for Medicare patients, the inability of hospitals to assume collection risks due to financial constraints and increased competition from other wound healing products. The Company anticipates that the percentage of patients receiving Procuren(R) will continue to decline in the future.

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Costs of product sales and services increased from \$56.0 million in 1998 to \$59.9 million in 1999, a 7% increase. The increase is attributable to additional staffing and operating expenses associated with the operation of 12 additional under arrangement Wound Care Centers at which the services component of costs is higher than at the Company's other centers due to the additional clinical staffing and expenses that these models require. As compared with 1998, the higher services components at these centers along with existing under arrangement centers accounted for \$3.2 million of the increase in product costs and services for 1999. As a percentage of revenues, costs of product sales and services for 1999 was 59% compared to 54% for 1998. The 5% increase is attributed to the lower revenue and negative same store sales growth which decreased margins and created an inability to leverage expenses over a broader revenue base.

Selling, general and administrative expenses increased from \$23.4 million in 1998 to \$26.3 million in 1999, a 12% increase. The increase is primarily attributable to legal and other costs of approximately \$1.7 million in 1999, related to the Department of Justice action, the Office of Inspector General's document subpoena and shareholder class action lawsuits. The Company expects to continue to incur significant legal and other related costs until the aforementioned actions are resolved. As a percentage of revenues, selling, general and administrative expenses were 26% in 1999 compared to 22% in 1998. The increase is due to the higher legal expense and decreased revenue in 1999.

Interest income was \$2.0 million in 1999 compared to \$2.7 million in 1998. The decline is primarily attributable to the lower cash balances resulting from the repurchase of Company stock.

Net income decreased from \$17.0 million or \$1.34 (basic) per share in 1998 to \$10.5 million or \$.99 (basic) per share in 1999. The decrease in earnings of \$6.5 million is attributable to a reduced revenue base which impacted wound care center margins, lower interest income, and the additional unanticipated legal and other costs.

### Liquidity and Capital Resources

Working capital was \$44.4 million at December 31, 2000 compared to \$55.4 million at December 31, 1999. Total cash, cash equivalents and marketable securities held-to-maturity as of December 31, 2000 was \$46.0 million and was invested primarily in highly liquid money market funds, commercial paper and government securities. The ratio of current assets to current liabilities decreased from 4.4:1 at December 31, 1999 to 3.3:1 at December 31, 2000. The Company's decrease in working capital and current ratio is primarily attributable to a reduction in accounts receivable and the Company's \$17.4 million repurchase of stock.

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Cash flows provided by operations for 2000 totaled \$17.9 million primarily attributable to a decrease in accounts receivable, \$4.3 million in depreciation and amortization expense and an increase in accounts payable and accrued expenses of \$3.3 million. Cash flows provided by investing activities for 2000 totaled approximately \$2.1 million primarily attributable to the excess of sales of marketable securities over purchases and asset sales. Cash flows used in financing activities totaled \$17.2 million for 2000 which was attributable to the repurchase of shares.

During 2000, the Company experienced a \$10.8 million decrease in net accounts receivable and a decrease in the average number of days receivables outstanding to 61 days as of December 31, 2000 compared to 76 as of December 31, 1999. Further, compared to December 31, 1999, the Company's accounts payable and accrued expenses increased \$3.3 million as of December 31, 2000.

The Company's longer term cash requirements include acquisition costs and working capital for the expansion of its wound care business. On March 20, 2001, the Company signed a definitive agreement to purchase all of the outstanding shares of Millennium Health, Inc. for \$32.3 million and the assumption and repayment of \$5 million in debt. Other cash requirements are anticipated for capital expenditures in the normal course of business, the acquisition of software, computers and equipment related to the Company's management information systems, and the repurchase of Company stock. Additionally the Company expects to incur significant legal costs related to the Department of Justice actions and shareholder class action lawsuits filed against the Company during April 1999 (See Legal Proceedings, Part I Item 3). The Company expects that based on its current business plan, its existing cash, cash equivalents and marketable securities will be sufficient to satisfy its current working capital needs. The Company anticipates obtaining a revolving line of credit to supplement its working capital needs as the result of the Millennium Health acquisition. The effect of inflation risk is considered immaterial.

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### Health Insurance Portability and Protection Act

During 2000 final regulations regarding the protection of the privacy of personal health information, promulgated by the Department of Health and Human Services, were published in the Federal Register. These regulations set the standards for securing patient records and generally prohibit covered entities from using or disclosing protected health information. As a result of these regulations, the Company anticipates expenditures in ensuring patient data kept on computer networks maintained at the Wound Care Centers and corporate offices are in compliance with these regulations. While the Company believes that it will be in compliance by the February 2003 deadline, there can be no assurances that the cost of reaching compliance will not have a material impact on the financial condition of the Company.

### Cautionary Statement

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements include statements regarding intent, belief or current expectations of the Company and its management. These forward-looking statements are not guarantees of future performance and involve a number of risks and uncertainties that may cause the Company's actual results to differ materially from the results discussed in these statements. Factors that might cause such differences include, but are not limited to, changes in the Company's level of business with Columbia/HCA Healthcare Corporation, terminations or non-renewal of a material number of

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contracts or inability to obtain new contracts, changes in the government regulations relating to the Company's wound care operations or Procuren, uncertainties relating to health care reform initiatives, changes in the availability of third party reimbursements for the Company's products and services, and the other risks and uncertainties detailed throughout this report and from time to time in the Company's filings with the Securities and Exchange Commission.

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### Item 7a Quantitative and Qualitative Disclosures About Market Risk

The primary objective of our investment activities is to preserve principal while at the same time maximizing the income we receive from our investments without significantly increasing risk. Some of the securities that we invest in may have market risk. This means that a change in prevailing interest rates may cause the fair market value of the principal amount of the investment to fluctuate. For example, if we hold a security that was issued with a fixed interest rate at the then-prevailing rate and the prevailing interest rate later rises, the fair value of the principal amount of our investment will probably decline. To minimize this risk we maintain our portfolio of cash equivalents and short-term investments in a variety of securities, including commercial paper, money market funds, government and non-government debt securities. The average duration of all of our investments has generally been less than one year. Due to the short-term nature of these investments, we believe we have no material exposure to interest rate risk arising from our investments.

### Item 8 Consolidated Financial Statements and Supplementary Data

The information required by this item is incorporated herein by reference to the Consolidated Financial Statements listed in Item 14(a) of Part IV of this Report.

The following table sets forth the financial results of the Company for the eight quarters ended December 31, 2000 (in thousands, except per share data):

| Quarter Ended | Revenues  | Gross Profit | Net (Loss)<br>Income | Income Per<br>Common Share Basic | Income Per<br>Common Share Dilute |
|---------------|-----------|--------------|----------------------|----------------------------------|-----------------------------------|
| 2000:         |           |              |                      |                                  |                                   |
| December 31   | \$ 14,982 | \$ (5,096)   | \$ (2,661)           | \$ (.34)                         | \$ (.34)                          |
| September 30  | 18,919    | (183)        | 309                  | .04                              | .04                               |
| June 30       | 21,590    | 775          | 835                  | .09                              | .09                               |
| March 31      | 22,200    | 1,681        | 1,389                | .14                              | .14                               |
| 1999:         |           |              |                      |                                  |                                   |
| December 31   | \$ 24,367 | \$ 9,702     | \$ 2,130             | \$ .21                           | \$ .21                            |
| September 30  | 25,979    | 10,262       | 2,201                | .22                              | .22                               |
| June 30       | 25,620    | 10,131       | 2,319                | .23                              | .23                               |
| March 31      | 24,243    | 11,169       | 3,812                | .32                              | .31                               |

### Item 9 Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.



PART III

This information required by Part III of this Form 10-K is omitted from this Report in that the Registrant will file a definitive proxy statement pursuant to Regulation 14(a) for its 2001 Annual Meeting of Stockholders (the "Proxy Statement") not later than 120 days after the end of the fiscal year covered by this Report, and certain information included therein is incorporated herein by reference.

Item 10 Directors and Executive Officers of the Registrant

The information required by this Item is incorporated by reference to the sections "Election of Directors" and "Executive Officers" of the Company's Proxy Statement.

Item 11 Executive Compensation

The information required by this Item is incorporated by reference to the section "Executive Compensation" of the Company's Proxy Statement.

Item 12 Security Ownership of Certain Beneficial Owners and Management

The information required by this Item is incorporated by reference to the section "Stock Ownership of Certain Beneficial Owners and Management" of the Company's Proxy Statement.

Item 13 Certain Relationships and Related Transactions

The information required by this Item is incorporated by reference to the sections "Election of Directors", "Executive Officers" and "Executive Committee" of the Company's Proxy Statement.

PART IV

Item 14 Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) 1. Index to Financial Statements.

The following consolidated financial statements of Curative Health Services, Inc. are included herein:

|  | Page<br>Number<br>----- |
|--|-------------------------|
| Report of Independent Auditors.....  | F-1                     |
| Consolidated Balance Sheets at December 31, 2000 and 1999                                      | F-2                     |
| Consolidated Statements of Income for the years ended<br>December 31, 2000, 1999 and 1998..... | F-3                     |
| Consolidated Statements of Stockholders' Equity for the  |                         |

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|  |     |
|--|-----|
| years ended December 31, 2000, 1999 and 1998....   | F-4 |
| Consolidated Statements of Cash Flows for the years ended<br>December 31, 2000, 1999 and 1998.....                                 | F-5 |
| Notes to Consolidated Financial Statements.....  | F-6 |
| 2. Financial Statement Schedules. The following financial statement schedule of Curative Health Services, Inc. is included herein: |     |

| Schedule<br>-----                         | Page<br>---- |
|---|--------------|
| II Valuation and Qualifying Accounts..... | S-1          |

All other schedules are omitted because they are not applicable, or not required, or because the required information is included in the consolidated financial statements or notes thereto.

3. Exhibits. The exhibits listed in the accompanying Index to Exhibits immediately following the financial statement schedules are filed with this report.

- (b) Reports on Form 8-K. No reports were filed on Form 8-K by the Company during the fiscal quarter ended December 31, 2000.
- (c) Exhibits - The response to this portion of Item 14 is submitted as a separate section of this report.

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### SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

CURATIVE HEALTH SERVICES, INC.  
By: /s/ John C. Prior  
-----  
John C. Prior  
President

Dated: March 30, 2001

### POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints John C. Prior and Thomas Axmacher, jointly and severally, his attorneys-in-fact, each with the power of substitution, for him in any and all capacities, to sign any amendments to this Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| Signature<br>Title<br>Date | Title     | Date           |
|----------------------------|-----------|----------------|
| /s/ John C. Prior          | President | March 30, 2001 |

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|   |   |                |
|---|---|----------------|
| -----<br>John C. Prior                                | (Principal Executive Officer)<br>Secretary                            |                |
| /s/ Thomas Axmacher<br>-----<br>Thomas Axmacher       | VP Finance and CFO<br>(Principal Financial and<br>Accounting Officer) | March 30, 2001 |
| /s/ Joseph Feshbach<br>-----<br>Joseph Feshbach       | Chairman of the Board and<br>Director                                 | March 30, 2001 |
| /s/ Paul S. Auerbach<br>-----<br>Paul S. Auerbach     | Director  | March 30, 2001 |
| /s/ Daniel E. Berce<br>-----<br>Daniel E. Berce       | Director  | March 30, 2001 |
| /s/ Lawrence English<br>-----<br>Lawrence English     | Director  | March 30, 2001 |
| /s/ Joel Kurtzman<br>-----<br>Joel Kurtzman           | Director  | March 30, 2001 |
| /s/ Daniel A. Gregorie<br>-----<br>Daniel A. Gregorie | Director  | March 30, 2001 |
| /s/ Gerard Moufflet<br>-----<br>Gerard Moufflet       | Director  | March 30, 2001 |
| /s/ Timothy I. Maudlin<br>-----<br>Timothy I. Maudlin | Director  | March 30, 2001 |

### Report of Independent Auditors

Board of Directors and Stockholders  
Curative Health Services, Inc.

We have audited the accompanying consolidated balance sheets of Curative Health Services, Inc. and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2000. Our audits also included the financial statement schedule listed in the Index at Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An

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audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Curative Health Services, Inc. and subsidiaries at December 31, 2000 and 1999, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Melville, New York  
March 20, 2001

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### CURATIVE HEALTH SERVICES, INC., AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS (Dollars in thousands)

|   | December 31, |          |
|---|--------------|----------|
|   | 2000         | 1999     |
|   | ----         | ----     |
| <b>ASSETS</b>   |              |          |
| Cash and cash equivalents .....   | \$19,016     | \$16,215 |
| Marketable securities held-to-maturity .....  | 26,978       | 30,807   |
| Accounts receivable (less allowance of \$2,046 and \$2,276<br>at December 31, 2000 and 1999, respectively) .....                                      | 9,843        | 20,653   |
| Deferred tax assets .....   | 2,806        | 2,271    |
| Assets available for sale .....   | 3,683        | -        |
| Prepaid and other current assets .....  | 1,664        | 1,820    |
|   | -----        | -----    |
| Total current assets .....  | 63,990       | 71,766   |
| Property and equipment, net .....   | 7,065        | 12,010   |
| Other assets .....  | 4,111        | 4,134    |
|   | -----        | -----    |
| Total assets .....  | \$75,166     | \$87,910 |
|   | =====        | =====    |
| <b>LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>   |              |          |
| Accounts payable .....  | \$ 7,308     | \$ 7,831 |
| Accrued expenses .....  | 12,288       | 8,479    |
|   | -----        | -----    |
| Total current liabilities .....   | 19,596       | 16,310   |
| Commitments and contingencies   |              |          |
| Stockholders' equity:   |              |          |
| Preferred stock, \$.01 par value per share; 10,000,000<br>shares authorized, none issued .....  | -            | -        |
| Preferred stock, Series A Junior Participating, par value<br>\$.01 per share, 500,000 shares authorized, none issued .                                | -            | -        |
| Common stock, \$.01 par value per share; 50,000,000<br>shares authorized 7,196,439 shares issued and<br>outstanding (10,090,110 shares in 1999) ..... | 71           | 100      |
| Additional paid in capital .....  | 30,896       | 46,769   |

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|  |          |          |
|--|----------|----------|
| Retained earnings .....                          | 24,603   | 24,731   |
|  | -----    | -----    |
| Total stockholders' equity .....                 | 55,570   | 71,600   |
|  | -----    | -----    |
| Total liabilities and stockholders' equity ..... | \$75,166 | \$87,910 |
|  | =====    | =====    |

See notes to consolidated financial statements  
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CURATIVE HEALTH SERVICES, INC., AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(Dollars in thousands, except per share data)

|  | Year Ended December 31, |           |           |
|--|-------------------------|-----------|-----------|
|  | 2000                    | 1999      | 1998      |
|  | ----                    | ----      | ----      |
| Revenues .....   | \$ 77,691               | \$101,209 | \$103,987 |
| Costs and operating expenses:  |                         |           |           |
| Costs of product sales and services .....  | 51,073                  | 59,945    | 56,035    |
| Selling, general and administrative .....  | 29,441                  | 26,273    | 23,358    |
|  | -----                   | -----     | -----     |
| Total costs and operating expenses .....   | 80,514                  | 86,218    | 79,393    |
|  | -----                   | -----     | -----     |
| (Loss) income from operations .....  | (2,823)                 | 14,991    | 24,594    |
| Interest income .....  | 2,609                   | 2,037     | 2,660     |
|  | -----                   | -----     | -----     |
| (Loss) income before income taxes .....  | (214)                   | 17,028    | 27,254    |
| Income tax (benefit) provision .....   | (86)                    | 6,566     | 10,217    |
|  | -----                   | -----     | -----     |
| Net (loss) income .....  | \$ (128)                | \$ 10,462 | \$ 17,037 |
|  | =====                   | =====     | =====     |
| Net (loss) income per common share, basic .....  | \$ (.01)                | \$ .99    | \$ 1.34   |
|  | =====                   | =====     | =====     |
| Net (loss) income per common share, diluted .....  | \$ (.01)                | \$ .97    | \$ 1.30   |
|  | =====                   | =====     | =====     |
| Denominator for basic earnings per share, weighted average<br>common shares .....                        | 8,780                   | 10,559    | 12,704    |
|  | =====                   | =====     | =====     |
| Denominator for diluted earnings per share, weighted<br>average common shares assuming conversions ..... | 8,780                   | 10,756    | 13,071    |
|  | =====                   | =====     | =====     |

See notes to consolidated financial statements  
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CURATIVE HEALTH SERVICES, INC., AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
(In thousands, except shares)

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|  | Common Stock |        | Additional | Retained  | Stockho |
|--|--------------|--------|------------|-----------|---------|
|  | Shares       | Amount | Paid-in    | Earnings  |         |
|  |              |        | Capital    | (Deficit) |         |
| Balance, December 31, 1997                         | 12,561,342   | \$125  | \$75,235   | \$(2,768) | \$      |
| Exercise of options                                | 196,940      | 2      | 1,916      | -         |         |
| Tax benefit from stock option exercises            | -            | -      | 1,849      | -         |         |
| Net income for 1998                                | -            | -      | -          | 17,037    |         |
| Balance, December 31, 1998                         | 12,758,282   | 127    | 79,000     | 14,269    |         |
| Exercise of options                                | 6,828        | -      | 33         | -         |         |
| Shares repurchased and retired                     | (2,675,000)  | (27)   | (32,293)   | -         |         |
| Tax benefit from stock option exercises            | -            | -      | 29         | -         |         |
| Net income for 1999                                | -            | -      | -          | 10,462    |         |
| Balance, December 31, 1999                         | 10,090,110   | 100    | 46,769     | 24,731    |         |
| Exercise of options                                | 27,654       | -      | 125        | -         |         |
| Shares repurchased and retired                     | (2,921,325)  | (29)   | (17,333)   | -         |         |
| Increased equity in Accordant Health Services, Inc | -            | -      | 1,335      | -         |         |
| Net loss for 2000                                  | -            | -      | -          | (128)     |         |
| Balance, December 31, 2000                         | 7,196,439    | \$71   | \$30,896   | \$24,603  | \$      |

See notes to consolidated financial statements  
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CURATIVE HEALTH SERVICES, INC., AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Dollars in thousands)

|  | Year Ended December 31, |           |           |
|--|-------------------------|-----------|-----------|
|  | 2000                    | 1999      | 1998      |
| OPERATING ACTIVITIES:  |                         |           |           |
| Net (loss) income  | \$ (128)                | \$ 10,462 | \$ 17,037 |
| Adjustments to reconcile net (loss) income to net cash provided by operating activities: |                         |           |           |
| Depreciation & amortization  | 4,294                   | 3,983     | 2,794     |
| Provision for doubtful accounts  | 2,189                   | 3,668     | 1,957     |
| Equity in operations of investee   | 431                     | 496       | 85        |
| Deferred income taxes  | (535)                   | (1,229)   | 193       |
| Tax benefit from stock option exercises  | -                       | 29        | 1,849     |
| Change in operating assets and liabilities:  |                         |           |           |
| Decrease (increase) in accounts receivable   | 8,621                   | (4,450)   | (7,617)   |
| Increase in prepaid and other current assets   | (294)                   | (641)     | (255)     |

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|  |           |           |           |
|--|-----------|-----------|-----------|
| Increase in accounts payable and accrued expenses .....                                | 3,320     | 592       | 3,418     |
|  | -----     | -----     | -----     |
| NET CASH PROVIDED BY OPERATING ACTIVITIES .....  | 17,898    | 12,910    | 19,461    |
| INVESTING ACTIVITIES:  |           |           |           |
| Investment in Accordant Health Services, Inc. and other .....                          | -         | (1,071)   | (3,000)   |
| Purchases of property and equipment .....  | (1,689)   | (2,575)   | (6,840)   |
| Purchases of marketable securities held-to-maturity .....                              | (30,359)  | (35,854)  | (49,942)  |
| Sales of marketable securities held-to-maturity .....                                  | 34,188    | 50,877    | 22,919    |
|  | -----     | -----     | -----     |
| NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES .....                              | 2,140     | 11,377    | (36,863)  |
| FINANCING ACTIVITIES:  |           |           |           |
| Stock repurchases .....  | (17,362)  | (32,320)  | -         |
| Proceeds from exercise of stock options, warrants<br>and subscription receivable ..... | 125       | 33        | 1,918     |
| Principal payments on capital lease obligations and revolving<br>line of credit .....  | -         | (7)       | (40)      |
|  | -----     | -----     | -----     |
| NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES .....                              | (17,237)  | (32,294)  | 1,878     |
|  | -----     | -----     | -----     |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS .....                                 | 2,801     | (8,007)   | (15,524)  |
| Cash and cash equivalents at beginning of year .....                                   | 16,215    | 24,222    | 39,746    |
|  | -----     | -----     | -----     |
| CASH AND CASH EQUIVALENTS AT END OF YEAR .....   | \$ 19,016 | \$ 16,215 | \$ 24,222 |
|  | =====     | =====     | =====     |
| SUPPLEMENTARY CASH FLOW INFORMATION:   |           |           |           |
| Interest paid .....  | \$ -      | \$ 2      | \$ 31     |
|  | =====     | =====     | =====     |
| Income taxes paid .....  | \$ 1,374  | \$ 6,315  | \$ 5,330  |
|  | =====     | =====     | =====     |

SUPPLEMENTAL INFORMATION PERTAINING TO NON-CASH INVESTING AND FINANCING ACTIVITIES: During 2000, the Company recorded an increase of \$1,335,000 to its investment in Accordant Health Services, Inc. and a corresponding increase to paid-in capital related to an increase in the value of the Company's equity interest in Accordant resulting from an equity offering done by Accordant.

See notes to consolidated financial statements  
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CURATIVE HEALTH SERVICES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2000

NOTE A -- ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization: The Company was organized under the laws of the State of Minnesota in October 1984. It is a disease management company in the chronic wound care business. The Company, operating in one business segment, manages a nationwide network of Wound Care Centers that offers patients a multi-disciplinary comprehensive wound treatment program. The Company's management agreements with hospitals and other health care providers generally have terms of three to five years.

Principles of Consolidation: The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Significant intercompany balances and transactions have been eliminated in consolidation.

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Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Net Income (Loss) Per Share: Basic and diluted income (loss) per share is calculated in accordance with Financial Accounting Standards Board ("FASB") Statement No. 128.

Property and Equipment: Property and equipment are recorded at cost. Depreciation of property and equipment is provided using the straight-line method over the estimated useful lives (generally 4 to 7 years). Leased equipment capitalized and leasehold improvements are amortized over the life of the lease or the useful life of the related asset, whichever is shorter.

Other Assets: As of December 31, 1999 and 2000, other assets totaled \$4,134,000 and \$4,111,000 respectively. As of December 31, 1999, other assets consist of costs of filing patents and trademarks of \$644,000, the net investment of \$3,419,000 in Accordant Health Services, Inc. (See Note C) and a note receivable of \$71,000. As of December 31, 2000, other assets consist primarily of the net investment of \$3,931,000 in Accordant Health Services, Inc. and notes receivable of \$180,000.

Long-Lived Assets: The Company periodically reviews the carrying value of its long-lived assets in determining the ultimate recoverability of their unamortized values using future undiscounted cash flows analyses. Such review has been performed by management and does not indicate an impairment of such assets, except for the impairment of assets available for sales (See Note B).

Cash and Cash Equivalents: Cash and cash equivalents consist of demand deposits with banks, certificates of deposit with maturities of less than three months at the time of purchase and highly liquid money market fund investments.

Marketable Securities Held-to-Maturity: Held-to-maturity marketable securities represent highly liquid money market instruments with maturities of greater than three months at time of purchase. These securities, consisting principally of securities of municipalities, commercial paper and U.S. Government agencies maturing at various dates through November 2001, are valued at amortized cost which approximates market.

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CURATIVE HEALTH SERVICES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2000

NOTE A-- ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company's investment policy gives primary consideration to safety of principal, liquidity and return. The Company invests its funds with institutions that have high credit ratings and to date has not experienced any losses on its investments. The Company classifies its investments in such securities as held-to-maturity as the Company has the intent and ability to hold these securities to maturity. As of December 31, 1999 and 2000, the Company had approximately \$115,000 of unrealized losses and \$16,000 of unrealized gains on marketable securities, respectively.



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**Concentration of Credit Risk:** Substantially all of the Company's revenues have been generated from Wound Care Centers which the Company has established as cooperative ventures with acute care hospitals in the United States to provide a multi-disciplinary treatment protocol for chronic wounds. The Company provides contractual management services for fees and sells Procuren to acute care hospitals and other health care providers. Credit is extended based on an evaluation of the hospital's financial condition and collateral is generally not required.

**Revenues:** Revenues are recognized when products are dispensed or as contractual management services are rendered.

**Advertising:** The Company expenses advertising and community education costs when incurred. Advertising and community education expense was approximately \$10,166,000, \$8,056,000, and \$6,037,000 for 1998, 1999 and 2000, respectively.

**Income Taxes:** Income taxes have been provided using the liability method in accordance with FASB No. 109, "Accounting for Income Taxes."

**Stock Based Compensation Plans:** The Company grants options for a fixed number of shares to employees with exercise price equal to the fair value of the shares at the date of grant. The Company accounts for stock option grants in accordance with APB Opinion No. 25, "Accounting for Stock Issued Employees" and related Interpretations because the Company believes the alternate fair value accounting provided for under FASB No. 123, "Accounting for Stock Based Compensation", requires the use of option valuation models that were not developed for use in valuing employee stock options. Under APB 25, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recorded.

### NOTE B -- SALE OF PROCUREN BUSINESS

On January 2, 2001, the Company sold the assets of its Procuren business for approximately \$3.8 million to Cytomedix, Inc. ("Cytomedix"). Under the agreement, Cytomedix will be the exclusive manufacturer of Procuren and Curative will be the exclusive distributor of Procuren solution in the United States. Curative will also receive royalties based on the sales of products that are developed from the associated patents on sales outside the United States. The consideration received by the Company was \$2.1 million in cash, \$1.7 million in a convertible secured promissory note, and a warrant certificate to purchase 600,846 shares of Cytomedix common stock at purchase price of the lesser of \$.50 per share or a price per share equal to the average of the three lowest intraday sales prices as reported by a reliable reporting service during the 20 trading days preceding the date on which the warrant is exercised. Assets related to this sale are shown as assets available for sale in the accompanying consolidated balance sheet and are carried at fair value. The Company recorded a \$.2 million impairment charge on the assets available for sale at December 31, 2000, based on the net realizable value of the assets. The \$.2 million charge has been

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CURATIVE HEALTH SERVICES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2000

NOTE B-- SALE OF PROCUREN BUSINESS (continued)

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included in selling, general and administrative expense in the accompanying financial statements. The Company recorded reserves totaling \$.8 million at December 31, 2000, related to leases assigned to Cytomedix under which the Company remains as a guarantor.

### NOTE C -- EQUITY INVESTMENT

On June 4, 1998, the Company signed an agreement with Accordant Health Services, Inc. ("Accordant") in which the Company agreed to invest \$4 million in Accordant preferred stock. The Company currently has an 8.6 percent interest in Accordant and is accounted for using the equity method of accounting as the Company has the option to convert the Accordant preferred stock into common stock. In addition, the Company has significant influence over the operations of Accordant. The Company's share of Accordant's 1998, 1999 and 2000 net loss was approximately \$85,000, \$496,000 and \$431,000, respectively. During 2000, the Company recorded an increase of \$1,335,000 to its investment in Accordant Health Services, Inc. and a corresponding increase to paid in capital related to an increase in the value of the Company's equity interest in Accordant as the result of an equity financing done by Accordant in 2000. The financing diluted the Company's ownership interest to 8.6% from 11%, but increased the value of its share of the underlying equity. The Company's investment in Accordant is not material to the Company's consolidated financial statements. At December 31, 1999 and 2000, the Company's investment in Accordant exceeded its underlying equity in such investment by \$3.4 million and \$3.0 million, respectively.

### NOTE D -- PROPERTY AND EQUIPMENT

A summary of property and equipment and related accumulated depreciation and amortization follows:

|  | December 31,   |          |
|--|----------------|----------|
|  | 2000           | 1999     |
|  | -----          |          |
|  | (In thousands) |          |
| Property and equipment.....                    | \$15,829       | \$18,394 |
| Leased equipment capitalized.....              | 1,371          | 1,371    |
| Leasehold improvements.....                    | 2,556          | 5,766    |
|  | -----          | -----    |
|  | 19,756         | 25,531   |
| Less accumulated depreciation and amortization | 12,691         | 13,521   |
|  | -----          | -----    |
|  | \$ 7,065       | \$12,010 |
|  | =====          | =====    |

### NOTE E -- ACCRUED EXPENSES Accrued expenses are as follows:

|                                      | December 31,   |          |
|--------------------------------------|----------------|----------|
|                                      | 2000           | 1999     |
|                                      | -----          |          |
|                                      | (In thousands) |          |
| Incentive compensation and benefits. | \$ 1,817       | \$ 2,616 |
| Deferred compensation .....          | 1,251          | 874      |
| Marketing and community education .. | 560            | 691      |
| Salaries .....                       | 1,246          | 1,431    |
| Health benefits .....                | 990            | 996      |
| Severance pay .....                  | 2,102          | -        |
| Reserves for leases assigned.....    | 800            | -        |
| Other .....                          | 3,522          | 1,871    |
|                                      | -----          | -----    |
|                                      | \$ 12,288      | \$ 8,479 |
|                                      | =====          | =====    |

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CURATIVE HEALTH SERVICES, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 December 31, 2000

NOTE F -- LEASES

The Company has entered into several noncancellable operating leases for the rental of certain office space expiring in various years through 2005. The principal lease for office space provides for monthly rent of approximately \$60,000. The following is a schedule of future lease payments, by year and in the aggregate, under noncancellable operating leases with initial or remaining terms of one year or more at December 31, 2000:

|            | Operating Leases |
|------------|------------------|
|            | -----            |
|            | (In thousands)   |
| 2001 ..... | \$ 1,362         |
| 2002 ..... | 1,127            |
| 2003.....  | 979              |
| 2004.....  | 857              |
| 2005.....  | 393              |
|            | -----            |
| Total..... | \$ 4,718         |
|            | =====            |

Rent expense for all operating leases was approximately \$2,113,000, \$2,130,000 and \$1,534,000 for the years ended December 31, 1998, 1999 and 2000, respectively.

NOTE G -- STOCKHOLDERS' EQUITY

Director Share Purchase Program: The Company maintains a Director Share Purchase Program (the "Program") to encourage ownership of its common stock by its directors. Under the Program, each non-employee director can elect to forego receipt of cash payments for director's annual retainer and meeting fees and, in lieu thereof, receive shares of common stock at market value equal to the cash payment. The Program authorized the issuance of up to 120,000 shares of the Company's common stock at market value. At December 31, 2000 and 1999, 118,406 shares of common stock were reserved for future issuance under the Program.

Stock Repurchase Plans: Since February 1999, the Company has announced stock repurchase plans authorizing repurchases of 7.5 million shares. As of December 31, 2000, a total of 5,596,325 shares had been repurchased at a cost of \$49,682,000, including 2,921,325 purchased in 2000 at a cost of \$17,362,000.

Restricted Stock Awards Plan: During 1999, the Company implemented a Restricted Stock Award Plan (the "Plan") for certain key executives. The total shares to be granted under the Plan are 73,000 shares at a price of \$5.41 per share. The shares vest over a three-year period. During 2000, 17,222 shares were exercised under the Plan.

Rights Plan: On October 25, 1995, the Board of Directors of the Company declared a dividend of one preferred share purchase right per share for each outstanding share of common stock of the Company. The dividend was paid on November 6, 1995 to shareholders of record on that date. Under certain circumstances each right may be exercised to purchase one-one hundredth of a

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share of Series A Junior Participating Preferred Stock, par value \$.01, of the Company for \$65. The rights, which are redeemable by the Company at \$.01 per right, expire in November 2005. The purchase right issued under the Company's Rights Agreement dated October 22, 1995 provides the holder in the event of (i) the acquisition of 15% or more of the Company's outstanding common stock by an Acquiring Person (as defined in the Rights Agreement), (ii) the commencement of a tender offer or exchange offer which results in a person or group owning 15% or more of the Company's common stock, to exercise each right (other than rights held by an Acquiring Person) to purchase common stock of the Company or a successor company with a market value of twice the \$65 exercise price.

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CURATIVE HEALTH SERVICES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2000

NOTE H -- STOCK BASED COMPENSATION PLANS

The Company has stock option plans which provide for the granting of non-qualified or incentive options to employees, directors, consultants and advisors. The plans authorize granting of up to 5,406,695 shares of the Company's common stock at the market value at the date of such grants. All options are exercisable at times as determined by the Board of Directors, not to exceed ten years after the grant date.

Pro forma information regarding net income (loss) and net income (loss) per share is required by FASB No. 123, and has been determined as if the Company has accounted for its stock options under the fair value method of that Statement. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions at December 31, 2000, 1999 and 1998 respectively: risk-free interest rate of 5.43%, 5.75% and 4.84%; no dividend yields; volatility factor of the expected market price of the Company's common stock of 70.2%, 74.1% and 55.7%; and a weighted-average expected life of the options of 4 years.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock options. The Company's pro forma information is as follows:

(In thousands, except per share data)

|                    |             | 2000     | 1999     | 1998     |
|--------------------|-------------|----------|----------|----------|
|                    |             | -----    |          |          |
| Net (loss) income: | As reported | \$ (128) | \$10,462 | \$17,037 |
|                    | Pro forma   | (2,465)  | 8,403    | 14,622   |
| Basic EPS:         | As reported | \$ (.01) | \$ .99   | \$ 1.34  |
|                    | Pro forma   | (.28)    | .80      | 1.15     |
| Diluted EPS:       | As reported | \$ (.01) | \$ .97   | \$ 1.30  |
|                    | Pro forma   | (.28)    | .78      | 1.12     |

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CURATIVE HEALTH SERVICES, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 December 31, 2000

NOTE H-- STOCK BASED COMPENSATION PLANS - (CONTINUED)

A summary of the Company's stock option activity and related information for the years ended is as follows:

|  | 2000                    |                | 1999                    |                |  |
|--|-------------------------|----------------|-------------------------|----------------|--|
|  | Weighted Avg<br>Options | Exercise Price | Weighted Avg<br>Options | Exercise Price |  |
| Outstanding at beginning of year                       | 1,678,548               | \$ 24.58       | 1,367,434               | \$ 25.81       |  |
| Granted.....   | 2,387,311               | 5.56           | 450,550                 | 7.55           |  |
| Exercised.....   | (10,432)                | 3.67           | (6,828)                 | 4.88           |  |
| Cancelled.....   | (595,207)               | 10.44          | (132,608)               | 19.13          |  |
| Outstanding at end of year                             | 3,460,220               | 17.57          | 1,678,548               | 24.58          |  |
| Exercisable at end of year                             | 1,144,934               | 13.76          | 710,762                 | 18.58          |  |
| Weighted average fair value of<br>options granted..... |                         | \$ 3.16        |                         | \$ 4.47        |  |

The following table summarizes information about stock options outstanding at December 31, 2000:

| Exercise prices  | Options Outstanding | Options Outstanding                   |                       | Weighted Average Exercise Price | Options Exercisable |                                 |
|------------------|---------------------|---------------------------------------|-----------------------|---------------------------------|---------------------|---------------------------------|
|                  |                     | Remaining Contractual Life (In Years) | Weighted Average Life |                                 | Shares              | Weighted Average Exercise Price |
| \$ 1.55 - \$4.75 | 88,201              | 3.63                                  |                       | \$ 3.88                         | 88,201              | \$ 3.88                         |
| 4.813 - 7.00     | 2,332,933           | 6.81                                  |                       | 5.63                            | 466,874             | 5.81                            |
| 8.50 - 11.50     | 180,882             | 6.21                                  |                       | 10.92                           | 158,544             | 10.84                           |
| 13.25 - 20.00    | 94,459              | 5.27                                  |                       | 17.84                           | 94,459              | 17.84                           |
| 20.25 - 33.06    | 763,745             | 6.75                                  |                       | 29.37                           | 336,856             | 27.59                           |

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|           |       |           |
|-----------|-------|-----------|
| -----     | ----  | -----     |
| 3,460,220 | 5.73  | 1,144,934 |
| =====     | ===== | =====     |

At December 31, 2000, 596,452 shares of common stock were reserved for future issuance, excluding shares reserved for options outstanding.

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CURATIVE HEALTH SERVICES, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 December 31, 2000

NOTE I -- INCOME TAXES

Significant components of the Company's deferred tax assets as of December 31, 2000 and 1999 are as follows:

|   | 2000     | 1999     |
|---|----------|----------|
| Bad debt reserve                          | \$ 640   | \$ 856   |
| Affiliate net operating loss carryforward | 642      | 591      |
| Other reserves and accruals               | 1,004    | 576      |
| Book over tax depreciation                | 520      | 248      |
|   | ---      | ---      |
| Deferred tax assets                       | \$ 2,806 | \$ 2,271 |
|   | =====    | =====    |

Significant components of the (benefit) provision for income taxes are as follows:

|                                      | 2000    | 1999     | 1998     |
|--------------------------------------|---------|----------|----------|
| Current:                             |         |          |          |
| Federal                              | \$ 378  | \$ 6,651 | \$ 8,434 |
| State                                | 71      | 1,144    | 1,590    |
| Deferred                             | (535)   | (1,229)  | 193      |
|                                      | ----    | -----    | -----    |
| Total income tax (benefit) provision | \$ (86) | \$ 6,566 | \$10,217 |
|                                      | =====   | =====    | =====    |

A reconciliation of income tax computed at the U.S. Federal statutory tax rate to income tax (benefit) expense is as follows:

|   | 2000    | 1999  | 1998   |
|---|---------|-------|--------|
| Federal statutory tax rate                    | (35.0%) | 35.0% | 35.0%  |
| State income taxes net of Federal tax benefit | (4.0%)  | 4.4%  | 3.8%   |
| Other   | (1.2%)  | (.8%) | (1.3%) |
|   | -----   | ----- | -----  |
| Effective tax rate                            | (40.2%) | 38.6% | 37.5%  |
|   | =====   | ===== | =====  |

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### CURATIVE HEALTH SERVICES, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2000

#### NOTE J -- MAJOR CUSTOMERS

In 1998, 1999 and 2000, the Company derived 25%, 13%, and 11% of its consolidated revenues from one customer, respectively.

#### NOTE K -- LEGAL PROCEEDINGS

In April 1999, the Company learned through a press release from the United States Department of Justice ("DOJ") that a complaint was filed by a "whistleblower" relator under the Federal Civil False Claims Act alleging that the Company made improper charges to Columbia/HCA hospitals as well as other hospitals. The case, filed as United States ex. rel. Joseph "Mickey" Parslow v. Columbia/HCA Healthcare Corporation and Curative Health Services, Inc. in the Federal District Court for the Middle District of Florida, Tampa Division, has been transferred to the United States District Court for the District of Columbia.

Under the False Claims Act, the whistleblower relator could be entitled to approximately 15% of any amounts obtained from the defendants. This potential bounty under the False Claims Act was intended by Congress to motivate private persons to bring actions of this nature.

In February 2001, the Office of the U.S. Attorney for the Middle District of Florida informed the Company, through its outside legal counsel, that it was the subject of a criminal investigation concerning its business relationships with the former Columbia/HCA.

In February 2001, the DOJ initiated settlement discussions with the Company and the Company expects that this process will continue. On March 15, 2001, the government filed its amended complaint in the Parslow case. The amended complaint alleges that pursuant to the Company's management services contracts with various Columbia/HCA hospitals, Company personnel provided services which the government characterizes as marketing and advertising services. The complaint further alleges that these services are not reimbursable under the Federal Medicare Program and that the hospitals submitted false claims to the Medicare Program by including the Company management fees on cost reports submitted by the hospitals to Medicare. The complaint contends that the Company, by providing these alleged marketing and advertising services and by charging a management fee for its services, caused the submission of false claims by the hospitals. Further, the complaint alleges that the Company, through its employees, recommended the services of Wound Care Centers and Columbia/HCA hospitals to patients and physicians. The complaint alleges that the Company arranged for patients to receive medical services from Columbia/HCA hospitals. The government contends that the management fees the Company received from the Columbia/HCA hospitals were illegal payments in exchange for patient referrals to Columbia/HCA hospitals. The hospitals filed these cost reports claiming reimbursement of the management fees. The government alleges that the hospital cost reports were false claims because the Company's management fees were improper under the Federal Medicare-Medicaid anti-kickback statute.

The Company has a formal compliance program and management believes that the Company is in material compliance with applicable laws and ethical business practices. In the conduct of its business, the Company has relied on the advice and guidance of nationally recognized law firms in structuring its business relationships with its hospitals. In this pending litigation, the Company intends to defend itself vigorously. An adverse result in this qui tam action could have a material adverse effect on the Company's business, financial

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condition and/or results of operations.

In January 2000, the Company disclosed that a qui tam action was filed under seal in the United States District Court for the Southern District of New York in 1998. Pursuant to a court order, the seal under which this action was filed was modified to, among other things, permit the Company to disclose the allegations in the complaint in its periodic filings with the Securities and Exchange Commission and as required to fulfill its disclosure obligations under federal and state securities laws. The complaint was filed by a "whistleblower" relator under the Federal Civil False Claims Act and names the Company and hospitals with which it does business as defendants.

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CURATIVE HEALTH SERVICES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2000

NOTE K -- LEGAL PROCEEDINGS (continued)

The portion of the qui tam action related to Columbia/HCA hospitals has been transferred to the United States District Court for the District of Columbia.

The complaint alleges, among other things, that the defendants violated the "anti-kickback" statute in part because a portion of the Company's fee was based upon the number of new patients seen in the wound care centers managed by the Company; engaged in prohibited self-referral transactions; improperly billed Medicare for costs and services not covered by Medicare; double billed Medicare for professional services; and submitted false claims to Medicare. Certain of the allegations are similar to the allegations made in the United States ex. rel. Joseph "Mickey" Parslow v. Columbia/HCA Healthcare Corporation and Curative Health Services, Inc. qui tam action. The complaint in the Southern District of New York action asserts that as a result of the allegedly wrongful conduct, the United States suffered damages and that the defendants are liable to the United States for three times the amount of the alleged damages plus civil penalties of up to \$10,000 per false claim.

The United States has not yet decided whether to intervene in the portion of the New York qui tam action that remains in the jurisdiction of the New York Court. If it does not, then the plaintiff relator may pursue the claims on his/her own or may withdraw the complaint. On March 15, 2001, however, the government declined to intervene against the Company in that portion of the qui tam action related to the Company's business with Columbia/HCA that was transferred to the U.S. District Court for the District of Columbia.

The Company disagrees with the characterizations in that complaint of its contractual arrangements, its services, and the fees it charges for those services, and intends to defend itself vigorously in this action. An adverse result in this qui tam action could have a material adverse effect on the Company's business, financial condition and/or results of operations.

Further, if the government were to conclude that the Company engaged in any misconduct, it could result in affecting the Company's relationship with all of its hospital customers, substantial monetary fines and penalties, and even exclusion from the governmental healthcare programs which could have a material adverse effect on the business, financial position and results of operations of the Company.

Subsequent to the disclosure of the Parslow "whistleblower" lawsuit and Department of Justice action, the Company and , in some cases, certain of its



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officers were named in four shareholder lawsuits, namely:

Ernest Hack versus Curative Health Services, Inc et. al.

Scott Thompson versus Curative Health Services, Inc. et al.

Tirdad Thompson versus Curative Health Services, Inc. et al.

William Nolan versus Curative Health Services, Inc. et al.

All suits were filed in the United States District Court for the Eastern District of New York. The four shareholder lawsuits have been consolidated into one class-action lawsuit. The lawsuits allege generally that the Company and its officers violated federal securities laws by disseminating materially false and misleading statements and failing to disclose material information relating to the contractual relationships with Columbia/HCA Healthcare Corporation and other hospitals, and certain purported misrepresentations in connection therewith. The suit seeks to recover unspecified damages from defendants. The Company denies the allegations and intends to vigorously defend the suits. The Court denied defendant's motion to dismiss and discovery is currently ongoing. An adverse result in this lawsuit could have a material adverse effect on the Company's business, financial condition and/or results of operations.

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CURATIVE HEALTH SERVICES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2000

NOTE K -- LEGAL PROCEEDINGS (continued)

Notwithstanding its belief that it has complied with the law and its intention to defend itself vigorously, if it is determined to be in the best interests of the Company, it is possible that the Company will eventually choose to enter into a settlement with the government related to the qui tam actions and/or the plaintiffs in the securities litigation lawsuit that could have a material adverse effect on the Company's business, financial condition and/or results of operations.

In addition, the Company, in the ordinary course of business, is the subject of or party to various lawsuits, the outcome of which, in the opinion of management, will not have a material adverse effect on its financial position or results of operations.

NOTE L -- EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share:

|   | 2000           | 1999   | 1998   |
|---|----------------|--------|--------|
|   | -----          |        |        |
|   | (In thousands) |        |        |
| Denominator:  |                |        |        |
| Denominator for basic earnings per share, weighted average shares | 8,780          | 10,559 | 12,704 |
| Effect of dilutive employee stock options (a)                     | -              | 197    | 367    |
|   | ---            | ---    | ---    |
| Denominator for diluted earnings per share,                       |                |        |        |

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|   |                |                 |                 |
|---|----------------|-----------------|-----------------|
| adjusted weighted average shares and<br>assumed conversions | 8,780<br>===== | 10,756<br>===== | 13,071<br>===== |
|---|----------------|-----------------|-----------------|

- (a) Potentially dilutive employee and director stock options that have been excluded from this amount because they are anti-dilutive amounted to 425,000, 1,198,000, and 1,578,000 in 1998, 1999, and 2000, respectively.

The numerator for basic and diluted earnings per share for the years ended December 31, 2000, 1999 and 1998 is the net income for the period.

### NOTE M -- EMPLOYEE BENEFITS

The Company maintains a qualified Employee Savings Plan (the "Plan") for eligible employees under Section 401(k) of the Internal Revenue Code. The Plan provides for voluntary employee contributions through salary reductions and employer contributions at the discretion of the Company. The Company currently has authorized employer contributions of 50% of employees' contribution up to 2% of the employees' compensation. The Company's contribution expense was \$480,000, \$552,000 and \$524,000 in 1998, 1999 and 2000, respectively.

Since 1999, the Company also maintained a non-qualified Deferred Compensation Plan for certain executives and directors. The Company's expense for this Deferred Compensation Plan was \$145,000 and \$116,000 in 1999 and 2000, respectively. This plan was terminated effective January 1, 2001.

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### CURATIVE HEALTH SERVICES, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2000

### NOTE N -- SUBSEQUENT EVENTS

On March 20, 2001, the Company announced it had signed a definitive agreement to purchase all of the outstanding shares of Millennium Health, Inc. for \$32.3 million and the assumption and repayment of approximately \$5 million in debt, for a total of \$37.3 million in cash. Millennium is a privately held specialty pharmaceutical company engaged in the distribution of biopharmaceuticals.

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Schedule II

### CURATIVE HEALTH SERVICES, INC. AND SUBSIDIARIES VALUATION AND QUALIFYING ACCOUNTS YEAR ENDED DECEMBER 31, 2000

COL. A

COL. B

COL. C

COL. D

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| DESCRIPTION                     | Balance at<br>Beginning<br>of Period | ADDITIONS                           |   |                           |
|---------------------------------|--------------------------------------|-------------------------------------|---|---------------------------|
|                                 |                                      | Charged to<br>Costs and<br>Expenses | Charged to<br>Other Account<br>Describe | Deduction<br>Describe     |
| Year ended December 31, 2000:   |                                      |                                     |   |                           |
| Allowance for doubtful accounts | \$ 2,276,000<br>=====                | \$ 2,189,000<br>=====               | \$ -<br>=====                           | \$ 2,419,000 (1)<br>===== |
| Year ended December 31, 1999    |                                      |                                     |   |                           |
| Allowance for doubtful accounts | \$ 1,679,000<br>=====                | \$ 3,668,000<br>=====               | \$ -<br>=====                           | \$ 3,071,000 (1)<br>===== |
| Year ended December 31, 1998:   |                                      |                                     |   |                           |
| Allowance for doubtful accounts | \$ 2,492,000<br>=====                | \$ 1,957,000<br>=====               | \$ -<br>=====                           | \$ 2,770,000 (1)<br>===== |

(1) Accounts written off

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INDEX TO EXHIBITS

| Exhibit No. | Description  | Page No.         |
|-------------|--|------------------|
| 3.1         | Articles of Incorporation of the Company   | (1)              |
| 3.2         | Bylaws of the Company  | (1)              |
| 4.0         | Rights Agreement, dated as of October 25, 1995 between Curative Technologies, Inc. and Bank Minnesota, National Association, as Rights Agent             | (7)              |
| 4.1         | Stock Purchase Agreement, dated July 6, 1989, among the Company and certain investors named therein  | (1) (Ex.4.2)     |
| 10.1        | Technology Transfer Agreement, dated September 21, 1990, between Curative Technologies GmbH and the Company  | (1) (Ex.10.8)    |
| 10.2        | Contractual Agreement for Wound Healing Product effective as of January 1, 1988, between the Company and the University of Minnesota Hospital and Clinic | (1) (Ex.10.17)   |
| 10.3        | Form of Wound Care Center(R)Contract   | (12)             |
| 10.4        | Lease Agreement dated June 30, 1997, and amended Lease Agreement dated November 13, 1997, between New York Life Insurance Company and the Company        | (12)             |
| 10.5        | Employment Agreement, dated as of September 1, 1997 between John C. Prior and the Company  | (9)**            |
| 10.6        | 1991 Stock Option Plan   | (1) (Ex.10.27)** |
| 10.7        | Amendment No. 4 to the 1991 Stock Option Plan  | (12)**           |

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|       |   |       |
|-------|---|-------|
| 10.9  | Curative Health Services, Inc., Director Share Purchase Program   | (3)** |
| 10.10 | Employment Agreement, dated as of October 21, 1993, between Howard Jones and the Company  | (4)** |
| 10.11 | Curative Health Services, Inc. Employee 401(k) Savings Plan, as amended and restated  | (5)** |
| 10.12 | Settlement Agreement by and between the University of California, David R. Knighton and the Company dated September 1, 1993   | (6)   |
| 10.13 | Settlement Agreement by and among the United States of America and UltraMed, Inc., Robert Baurys, Susan Hrim, Cy Corgan, Chris Rosenski and the Company dated October 18, 1994 and related agreements | (6)   |

### INDEX TO EXHIBITS (continued)

| Exhibit No. | Description   | Page No.        |
|-------------|---|-----------------|
|             |   |                 |
| 10.14       | Amendment of Employment Agreement, dated September 1, 1997 between John Vakoutis and the Company                              | (9)**           |
| 10.14.1     | Transition Agreement between Curative Health Services, Inc. and John Vakoutis   | *               |
| 10.15       | Employment Agreement dated as of September 1, 1997, between Carol Gleber and the Company                                      | (9)**           |
| 10.15.1     | Transition Agreement between Curative Health Services, Inc. and Carol Gleber  | (13)            |
| 10.16       | Employment Agreement dated as of June 17, 1987, between Gary Jensen and the Company   | (6)**           |
| 10.19       | Curative Technologies, Inc. Non-Employee Director Stock Option Plan   | (8)             |
| 10.19.1     | Amendment No. 1 to Curative Technologies, Inc. Non Employee Director Stock Option Plan  | (10) (Ex.10.19) |
| 10.19.2     | Amendment to the Non-Employee Director Stock Option Plan  | (14)            |
| 10.20       | Employment Agreement dated as of October 21, 1998 between Robert Heisler and the Company                                      | (12)**          |
| 10.21       | Amended Employment Agreement dated December 17, 1997 between William Tella and the Company                                    | (11)**          |
| 10.22       | Development and Licensing Agreement dated May 19, 1998 between Accordant Health Services, Inc. and the Company                | (12)            |
| 10.23       | Stock Purchase Agreement dated May 1998, among Accordant Health Services, Inc, the Company and certain investor named herein. | (12)            |
| 10.24       | Curative Health Services, Inc. 2000 Stock Option Plan   | *               |
| 10.25       | Asset Purchase Agreement among Cytomedix, Inc., Cytomedix, N.V.,  |                 |

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CHS Services, Inc. and Curative Health Services, Inc. dated as of  
October 12, 2000. (13)

|       |  |      |
|-------|--|------|
| 10.26 | Employment Agreement dated as of September 18, 2000, between Roy McKinley and the Company. | *    |
| 10.27 | Employment Agreement dated as of September 18, 2000, between Jule Crider and the Company.  | *    |
| 10.28 | Form of Restricted Stock Award Agreement   | (15) |
| 10.29 | Non-Employee Director Severance Plan   | (16) |

### INDEX TO EXHIBITS (continued)

| Exhibit No. | Description                                 | Page No. |
|-------------|---|----------|
| 21          | Subsidiaries of the Registrant              | *        |
| 23          | Consent of Ernst & Young LLP                | *        |
| 24          | Power of Attorney (included signature page) |          |

\* Filed herewith

\*\* Required to be filed pursuant to Item 601(b) (10) (ii) (A) or (iii) of Regulation S-K.

- (1) Incorporated by reference to similarly numbered exhibit to the Company's current report on Form 8-K dated May 30, 1996.
- (2) Incorporated by reference to the similarly numbered exhibit (unless otherwise indicated) to the Company's Registration Statement on Form S-1 (No. 33-39880).
- (3) Incorporated by reference to the Company's Registration Statement on Form S-8 (filed July 7, 1993, No. 33-65710).
- (4) Incorporated by reference to Exhibit 10.32 to the Company's Annual Report on Form 10-K filed for the year ended December 31, 1993.
- (5) Incorporated by reference to the Company's Registration Statement on Form S-8 (filed October 13, 1994, No. 33-85188).
- (6) Incorporated by reference to the similarly numbered exhibit to the Company's Annual Report on Form 10-K filed for the year ended December 31, 1994.
- (7) Incorporated by reference to similarly numbered exhibit to the Company's Current Report on Form 8-K dated November 6, 1995.
- (8) Incorporated by reference to Exhibit 10.25.2 to the Company's Quarterly Report on Form 10-Q filed for the year ended June 30, 1996.
- (9) Incorporated by reference to the similarly numbered exhibit to the Company's Annual Report and Form 10-K filed the year ended December 31, 1997.
- (10) Incorporated by reference to the similarly numbered exhibit (unless otherwise indicated) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998.
- (11) Incorporated by reference to Exhibit 10.45.1 to the Company's Quarterly Report on Form 10Q for the quarter ended March 3, 1998.
- (12) Incorporated by reference to similarly numbered exhibit to the Company's Annual Report on From 10K filed for the year ended December 31, 1998.
- (13) Incorporated by reference to similarly numbered exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000.
- (14) Incorporated by reference to similarly numbered exhibit to the Company's

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Quarterly Report on Form 10-Q for the quarter ended June 30, 2000.

- (15) Incorporated by reference to Exhibit 10.25 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000.
- (16) Incorporated by reference to Exhibit 10.26 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000.

Exhibit 10.14.1

### TRANSITION AGREEMENT

THIS TRANSITION AGREEMENT effective as of November 2, 2000 (the "Agreement") is made by and between CURATIVE HEALTH SERVICES, INC., a Minnesota corporation (the "Company"), and JOHN VAKOUTIS, an individual residing in the State of New York (the "Executive").

WHEREAS, pursuant to an Amended and Restated Employment Agreement effective as of September 1, 1997 between the Company and Executive, a copy of which is annexed hereto as Exhibit A (the "Employment Agreement"), Executive has been serving as the Company's President and Chief Executive Officer;

WHEREAS, the parties have agreed that Executive will resign immediately as a director of the Company and will resign effective as of the close of business on December 1, 2000 from his current position as an executive officer of the Company (the effective date of such resignation as an executive officer, the "Transition Date"); and

WHEREAS, in light of Executive's history with the Company and his extensive knowledge of the Company's business, the Company desires to reward Executive for his past contributions to the success of the Company on the terms and subject to the conditions set forth herein, which will not interfere with or jeopardize Executive's future employment.

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Resignation. Executive shall and does hereby resign as a director of the Company. Effective as of the Transition Date, Executive shall and does hereby resign as an executive officer of the Company. Accordingly, subject to Section 5 below, the Employment Agreement shall be terminated as of the Transition Date.

2. Benefits. It is the intention of the Company to provide to Executive, as compensation upon his resignation as an executive officer of the Company, benefits equal to or better than the benefits he would have received pursuant to Section 4.5(a) of the Employment Agreement as if the Company had terminated the Employment Agreement without Cause (as such term is defined in the Employment Agreement). Accordingly, the Company agrees, subject to the terms and conditions of this Agreement, to provide to Executive (i) for the 36-month period commencing on the Transition Date (the "Benefit Period"), the welfare benefits described in Section 3.2 of the Employment Agreement that Executive was receiving immediately prior to the Transition Date (it being agreed that Executive's COBRA rights shall not begin until after the Benefit Period); (ii) a lump sum severance payment of \$1,108,654.24, on January 2, 2001, but in no event earlier than the date this Agreement becomes effective pursuant to Section 10 below; and (iii) \$1,220 as a payment for Executive's unused vacation pay. The Company

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shall pay to Executive on January 2, 2001, the then current balance of his account in the Company's Deferred Compensation Plan, which balance as of September 30, 2000, was \$416,426.25.

3. Expenses. The Company shall reimburse Executive up to \$15,000 upon presentation of paid invoices for legal expenses and outplacement counseling fees and expenses actually paid by him in connection with his resignation pursuant to this Agreement. The Company agrees to reimburse Executive for expenses incurred prior to the Transition Date pursuant to Section 3.3 of the Employment Agreement upon submission of customary reimbursement forms by Executive, which expenses shall be paid promptly. The Company agrees that, subject to the terms and conditions of this Agreement, Executive shall be entitled to reimbursement of expenses consistent with past practice and the use of the automobile currently furnished to him by the Company pursuant to Section 3.4 of the Employment Agreement until May 1, 2003. Executive shall return such automobile to the Company on or before May 1, 2003.

4. Retention of Computers. Executive shall be entitled to retain the two Dell desktop computers that are currently in his possession.

5. Stock Options. A schedule of all unexpired options to purchase shares of Common Stock, \$.01 par value per share, of the Company ("Options") and the restricted grant of such shares made on August 11, 1999 ("Restricted Stock Grant") held by Executive as of the Transition Date is set forth on Exhibit B hereto. The parties hereto hereby agree that, as set forth on Exhibit B, all Options which will vest pursuant to the terms of their respective grants at any time on or before December 1, 2002, shall instead vest and become exercisable by Executive on the Transition Date and shall remain exercisable until December 1, 2002. In addition, as set forth on Exhibit B, as of the Transition Date, Executive shall be vested in that number of shares of the Restricted Stock Grant set forth on Exhibit B. The shares of the Restricted Stock Grant and the shares issuable upon exercise of the Options shall continue to be available for sale under the Company's registration statement on Form S-8.

6. Restrictive Covenants. Notwithstanding the termination of the Employment Agreement, Section 5 of the Employment Agreement will survive according to its terms, and Executive hereby agrees to be bound and abide by the restrictive covenants set forth therein.

7. Release of Claims.

(a) As a material inducement to the Company to enter into this Agreement and in consideration for the payments to be provided by the Company to Executive as contained herein, Executive hereby irrevocably and unconditionally releases, acquits and forever discharges the Company, and each of its current and former owners, principals, stockholders, predecessors, successors, assigns, agents, directors, officers, employees, representatives, attorneys, divisions, subsidiaries, whether wholly or partially owned, and affiliates (and current and former agents, directors, officers, employees, representatives and attorneys of such divisions, subsidiaries and affiliates), and all persons acting by, through, under or in concert with any of them (collectively, the "Company Releasees") from any and all charges, complaints, claims, liabilities, obligations, promises, agreements, controversies, damages, actions, causes of action, suits, rights, demands, costs, losses, debts and expenses (including attorneys' fees and costs actually incurred), of any nature whatsoever, known or unknown, which Executive now has, owns or holds, or claims to have, own or hold, or which Executive at any time heretofore had, owned or held, or claimed to have, own or held against each or any of the Company Releasees relating to or arising from his employment by the Company or the change in title and responsibility to be effective on the Transition Date ("Executive Claim" or "Executive Claims"). The Executive Claims shall include, without implication of

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limitation, any claims made or which could have been made based upon the Employment Agreement, all claims for wrongful termination of employment whether in contract, tort or otherwise; all claims for constructive discharge; all claims for defamation or damage to reputation; all claims for breach of express or implied contract; all claims for intentional, reckless or negligent infliction of emotional distress; all claims for breach of any express or implied covenant of employment, including the covenant of good faith and fair dealing; all claims for interference with contractual or advantageous relations, whether prospective or existing; all claims for deceit or misrepresentation; all claims relating to the Executive's employment with the Company, including claims relating to his hire and change in position as President and Chief Executive Officer; all claims for discrimination under state or federal law, including, without limitation, claims under Title VII of the Civil Rights Act of 1964, as amended, the Age Discrimination in Employment Act, as amended, the Americans with Disabilities Act, as amended, the Rehabilitation Act of 1973, as amended, and under any applicable state fair employment practices law or statute; all claims for reinstatement; all claims for punitive damages; all claims for wages, bonuses, severance, back or front pay or other forms of compensation; and all claims for attorneys' fees and costs. The foregoing notwithstanding, this release and the Executive Claims shall not include: (i) all claims which arise from the Company's obligations under this Agreement; (ii) all claims in respect of Executive's rights under the Company's 401(k) Plan; (ii) all claims in respect of Executive's COBRA rights after the Transition Date or (iv) all claims in respect of Executive's rights to indemnification as an employee and officer of the Company pursuant to applicable law or the Company's organizational documents.

Executive agrees that he will not hereafter pursue any Executive Claim against any Company Releasee by filing a lawsuit in any local, state or federal court, and he shall not seek damages of any nature, attorney's fees, or costs from the Company or any of the other Company Releasees in connection therewith.

(b) As a material inducement to Executive to enter into this Agreement and in consideration for Executive's agreements contained herein, the Company hereby irrevocably and unconditionally releases, acquits and forever discharges Executive, and each of his heirs, predecessors, successors, assigns, agents, representatives and attorneys, and all persons acting by, through, under or in concert with any of them (collectively, the "Executive Releasees") from any and all charges, complaints, claims, liabilities, obligations, promises, agreements, controversies, damages, actions, causes of action, suits, rights, demands, costs, losses, debts and expenses (including attorneys' fees and costs actually incurred), of any nature whatsoever, known or unknown, which the Company now has, owns or holds, or claims to have, own or hold, or which the Company at any time heretofore had, owned or held, or claimed to have, own or held against each or any of the Executive Releasees relating to or arising from Executive's employment by the Company ("Company Claim" or "Company Claims"). The Company Claims shall include, without implication of limitation, any claims made or which could have been made based upon the Employment Agreement; all claims for breach of express or implied contract; all claims for breach of any express or implied covenant of employment, including the covenant of good faith and fair dealing; all claims for interference with contractual or advantageous relations, whether prospective or existing; all claims for deceit or misrepresentation; all claims relating to the Executive's employment with the Company, and all claims for attorneys' fees and costs. The foregoing notwithstanding, this release and the Company Claims shall not include all claims which arise from Executive's obligations under this Agreement.

The Company agrees that it will not hereafter pursue any Company Claim against any Executive Releasee by filing a lawsuit in any local, state or federal court, and it shall not seek damages of any nature, attorney's fees, or costs from Executive or any of the other Executive Releasees in connection



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therewith.

8. Transition; Litigation and Regulatory Cooperation. Executive agrees to exert his best efforts through December 31, 2000 to provide such assistance as the Company may reasonably request in connection with the transition of Executive's duties and responsibilities to such other Company personnel as the Chief Executive Officer of the Company may reasonably request. In addition, from and after the Transition Date, Executive agrees to reasonably cooperate with the Company, at the Company's cost and expense, in the defense or prosecution of any claims, actions or investigations which already have been brought or which may be brought in the future against or on behalf of the Company which relate to events or occurrences that transpired during Executive's employment with the Company. Executive's reasonable cooperation in connection with such claims or actions shall include, without implication of limitation, being available to meet with counsel or prepare for discovery or trial and to testify truthfully as a witness when reasonably requested by the Company at reasonable times designated by the Company. The Company shall promptly reimburse Executive for his expenses, including, but not limited to, all directly related long distance calls, travel, lodging, food, reasonable cost of legal representation, and any other expenses which are reasonably required for Executive to reasonably cooperate with the obligations of this Section 8. Provided, however, that with respect to travel, lodging and food, if Executive provides reasonable notice to the Company of the amount and sources of the expenses, at Executive's request, the Company will either pay the expenses directly or advance the cost of those expenses to Executive. Executive further agrees that, unless required by law, he will not voluntarily disclose to any person or party any information that is adverse to the Company, that he will maintain the confidences and privileges of the Company and that he will testify truthfully regarding any information that he is obligated to disclose. Nothing herein shall be deemed to prevent Executive from complying to the full extent required by law, including, but not limited to, any court order or other legal process that may be issued to him. Provided, however, that nothing contained in this Section 8 shall unreasonably interfere with Executive seeking and maintaining future employment. The Company and its legal representatives will use their best efforts to coordinate reasonable requests under this Section 8, which will not jeopardize Executive's future on-going employment.

### 9. Nondisparagement.

(a) Executive will not, directly or indirectly, for his own account or for or on behalf of any other person or entity, whether as an officer, director, employee, partner, principal, joint venturer, consultant, investor, shareholder, independent contractor or otherwise speak or act in any manner that is intended to be or is derogatory of the Company or the Company Releasees, unless required by law or legal process to truthfully provide information which would otherwise violate this Section 9. Specifically, and without implication of limitation, Executive agrees not to take any action or make any statement, written or oral, which disparages or criticizes the Company, its management, or its business practices, or which disrupts or impairs the Company's normal operations, unless required by law or legal process to truthfully provide information which would otherwise violate this Section 9.

(b) The Company agrees that the Company and its officers and directors will not, directly or indirectly, for its own account or for or on behalf of any other person or entity, whether as partner, principal, joint venturer, investor, shareholder, independent contractor or otherwise speak or act in any manner that is intended to be or is derogatory of Executive. Specifically, and without implication of limitation, the Company agrees not to take any action or make any statement, written or oral, which will directly or indirectly disparage or criticize Executive.

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10. Right to Consider Agreement. Executive acknowledges that he has been given the opportunity, if he so desired, to consider this Agreement for twenty-one (21) days before executing it. If not signed by Executive and returned to Robert J. Dwyer, Esq., counsel to the Company, so that it is received by the close of business on the twenty-second (22nd) day after Executive's receipt of the Agreement, this Agreement will not be valid. In addition, if Executive breaches any of the conditions of the Agreement within the twenty-one (21) day period, the offer of this Agreement will be withdrawn and his execution of the Agreement will not be valid. In the event that Executive has executed this Agreement within less than twenty-one (21) days of the date of its delivery to his, Executive acknowledges that such decision was entirely voluntary and that he had the opportunity to consider this Agreement for the entire twenty-one (21) day period. The Company acknowledges that for a period of seven (7) days from the date of the execution of this Agreement, Executive shall retain the right to revoke this Agreement by written notice that is received by Robert J. Dwyer, Esq. before the end of such period, and that this Agreement shall not become effective or enforceable until the expiration of such revocation period.

11. Advice of Counsel. Executive represents and agrees that the Company hereby advises him to discuss all aspects of this Agreement with his attorney before signing the Agreement; that he has carefully read and fully understands all of the provisions of this Agreement and that he is voluntarily entering into this Agreement.

12. Confidentiality. Each of Executive and the Company and their respective counsel agree to hold the terms and conditions of this Agreement in strict confidence, except as may be required by law. If either party or such party's counsel is required by law to reveal information required by this paragraph to be kept confidential, such party will notify the other party before the information is revealed of the information that he or it will reveal, the reason therefore, and the identity of the entity seeking the information.

13. No Admission of Fault. Executive agrees that the Company's willingness to enter into this Agreement does not constitute and should not be construed as, any admission of liability or fault on the part of the Company or its officers, directors, employees and agents.

14. Written Statement; Letter of Recommendation. Notwithstanding the confidentiality provisions contained herein, the parties agree that (i) the press release that is annexed as Exhibit C may be distributed by Executive or the Company to anyone following the Transition Date, and (ii) the Chief Executive Officer of the Company shall furnish to Executive a letter of recommendation consistent with Exhibit C and otherwise mutually acceptable to the Chief Executive Officer and Executive.

15. Entire Agreement. This Agreement supersedes any and all other prior or contemporaneous agreements, either oral or in writing, between the parties hereto with respect to the subject matter hereof, including, without limitation, the Employment Agreement, and this Agreement contains all of the covenants and agreements between the parties with respect to the termination of Executive's employment and the severance and other benefits he shall receive in connection therewith; provided, however, that all Options which will vest pursuant to their terms after the Benefit Period shall lapse and be forfeited as of the Transition Date and the unvested portion of the Restricted Stock Grant as set forth on Exhibit B shall be forfeited.

16. Law Governing This Agreement. This Agreement shall be governed by and construed in accordance with the laws of the State of New York, without regard to conflicts of laws principles.

17. Waivers. No waiver at any time of any term or provision of this Agreement

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shall be construed as a waiver of any other term or provision of this Agreement and that a waiver at any time of any term or provision of this Agreement shall not be construed as a waiver at any subsequent time of the same term or provision.

18. Amendment. No amendment or modification of this Agreement shall be deemed effective unless and until executed in writing by each party hereto.

19. Severability and Limitation. All agreements and covenants contained herein are severable and in the event any of them shall be held to be invalid by any competent court, this Agreement shall be interpreted as if such invalid agreements or covenants were not contained herein. Should any court or other legally constituted authority determine that for any such agreement or covenant to be effective that it must be modified to limit its duration or scope, the parties hereto shall consider such agreement or covenant to be amended or modified with respect to duration and/or scope so as to comply with the orders of any such court or other legally constituted authority, and as to all other portions of such agreement or covenants they shall remain in full force and effect as originally written.

20. Headings. All headings set forth in this Agreement are intended for convenience only and shall not control or affect the meaning, construction or effect of this Agreement or of any of the provisions hereof.

21. Assignment. The Company shall have the right to assign this Agreement and to delegate all of its rights, duties and obligations hereunder to any entity which controls the Company, which the Company controls or which may be the result of the merger, consolidation, acquisition or reorganization of the Company and another entity. In the event of any permitted assignment, the Company shall nonetheless remain obligated hereunder. Executive agrees that this Agreement is personal to him and his rights and interests hereunder may not be assigned, nor may his obligations and duties hereunder be delegated, and that any attempted assignment or delegation in violation of this provision shall be void. Provided, however, that upon Executive's death, his rights under this Agreement shall inure to the benefit of his estate, successors and assigns.

22. Counterparts. This Agreement may be executed via facsimile transmission signature and counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

[signature page follows]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first set above.

CURATIVE HEALTH SERVICES, INC.  
(the "Company")

By: /s/ John C. Prior

-----  
Name: John C. Prior  
Title: COO

("Executive")

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/s/ John Vakoutis

-----  
JOHN VAKOUTIS

Exhibit 10.24

CURATIVE HEALTH SERVICES, INC.  
2000 STOCK INCENTIVE PLAN

Section 1. Purpose of Plan; Effect on Prior Plan.  
-----

(a) Purpose. The purpose of the Plan (as defined below) is to promote the interests of Curative Health Services, Inc., a Minnesota corporation, and its shareholders by aiding the Company in attracting and retaining employees, officers, consultants, independent contractors and non-employee directors capable of assuring the future success of the Company, to offer such persons incentives to put forth maximum efforts for the success of the Company's business and to afford such persons an opportunity to acquire a proprietary interest in the Company.

(b) Effect on Prior Plan. From and after the Effective Date, no stock options or other awards shall be granted under the Company's 1991 Stock Option Plan, as amended (the "Prior Plan"). All stock options granted and outstanding thereunder prior to the Effective Date shall remain outstanding in accordance with the terms of the Prior Plan.

Section 2. Definitions.  
-----

As used in the Plan, the following terms shall have the meanings set forth below:

(a) "Affiliate" shall mean (i) any entity that, directly or indirectly through one or more intermediaries, is controlled by the Company and (ii) any entity in which the Company has a significant equity interest, in each case as determined by the Committee.

(b) "Award" shall mean any Option, Stock Appreciation Right, Restricted Stock, Restricted Stock Unit, Performance Award, Other Stock Grant or Other Stock-Based Award granted under the Plan.

(c) "Award Agreement" shall mean any written agreement, contract or other instrument or document evidencing any Award granted under the Plan.

(d) "Board" shall mean the Board of Directors of the Company.

(e) "Code" shall mean the Internal Revenue Code of 1986, as amended from time to time, and any regulations promulgated thereunder.

(f) "Committee" shall mean a committee of Directors designated by the Board to administer the Plan. The Committee shall be comprised of not less than such number of Directors as shall be required to permit Awards granted under the Plan to qualify under Rule 16b-3, and each member of the Committee shall be a "Non-Employee Director" within the meaning of Rule 16b-3 and an "outside director" within the meaning of Section 162(m) of the Code. The Company expects to have the Plan administered in accordance with the requirements for the award of "qualified performance-based compensation" within the meaning of Section 162(m) of the Code.

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- (g) "Company" shall mean Curative Health Services, Inc., a Minnesota corporation, and any successor corporation.
- (h) "Director" shall mean a member of the Board.
- (i) "Effective Date" shall mean the date given in Section 10 of the Plan.
- (j) "Eligible Person" shall mean any employee, officer, consultant, independent contractor or Director providing services to the Company or any Affiliate whom the Committee determines to be an Eligible Person.
- (k) "Fair Market Value" shall mean, with respect to any property (including, without limitation, any Shares or other securities), the fair market value of such property determined by such methods or procedures as shall be reasonably established in good faith from time to time by the Committee.
- (l) "Incentive Stock Option" shall mean an option granted under Section 6(a) of the Plan that is intended to meet the requirements of Section 422 of the Code or any successor provision.
- (m) "Non-Qualified Stock Option" shall mean an option granted under Section 6(a) of the Plan that is not intended to be an Incentive Stock Option.
- (n) "Option" shall mean an Incentive Stock Option or a Non-Qualified Stock Option, and shall include Reload Options.
- (o) "Other Stock Grant" shall mean any right granted under Section 6(e) of the Plan.
- (p) "Other Stock-Based Award" shall mean any right granted under Section 6(f) of the Plan.
- (q) "Participant" shall mean an Eligible Person designated to be granted an Award under the Plan.
- (r) "Performance Award" shall mean any right granted under Section 6(d) of the Plan.
- (s) "Person" shall mean any individual, corporation, partnership, association or trust.
- (t) "Plan" shall mean the Curative Health Services, Inc. 2000 Stock Incentive Plan, as amended from time to time, the provisions of which are set forth herein.
- (u) "Reload Option" shall mean any Option granted under Section 6(a)(iv) of the Plan.
- (v) "Restricted Stock" shall mean any Shares granted under Section 6(c) of the Plan.
- (w) "Restricted Stock Unit" shall mean any unit granted under Section 6(c) of the Plan evidencing the right to receive a Share (or a cash payment equal to the Fair Market Value of a Share) at some future date.
- (x) "Rule 16b-3" shall mean Rule 16b-3 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, or any successor rule or regulation.

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(y) "Shares" shall mean shares of Common Stock, \$.01 par value per share, of the Company or such other securities or property as may become subject to Awards pursuant to an adjustment made under Section 4(c) of the Plan.

(z) "Stock Appreciation Right" shall mean any right granted under Section 6(b) of the Plan.

### Section 3. Administration.

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(a) Power and Authority of the Committee. The Plan shall be administered by the Committee. Subject to the express provisions of the Plan and to applicable law, the Committee shall have full power and authority to: (i) designate Participants; (ii) determine the type or types of Awards to be granted to each Participant under the Plan; (iii) determine the number of Shares to be covered by (or with respect to which payments, rights or other matters are to be calculated in connection with) each Award; (iv) determine the terms and conditions of any Award or Award Agreement; (v) amend the terms and conditions of any Award or Award Agreement and accelerate the exercisability of Options or the lapse of restrictions relating to Restricted Stock, Restricted Stock Units or other Awards; (vi) determine whether, to what extent and under what circumstances Awards may be exercised in cash, Shares, other securities, other Awards or other property, or canceled, forfeited or suspended; (vii) determine whether, to what extent and under what circumstances cash, Shares, promissory notes, other securities, other Awards, other property and other amounts payable with respect to an Award under the Plan shall be deferred either automatically or at the election of the holder thereof or the Committee; (viii) interpret and administer the Plan and any instrument or agreement, including an Award Agreement, relating to the Plan; (ix) establish, amend, suspend or waive such rules and regulations and appoint such agents as it shall deem appropriate for the proper administration of the Plan; and (x) make any other determination and take any other action that the Committee deems necessary or desirable for the administration of the Plan, subject to the exclusive authority of the Board under Section 7(a) herein to amend or terminate this Plan. Unless otherwise expressly provided in the Plan or unless otherwise disapproved by the Board, all designations, determinations, interpretations and other decisions under or with respect to the Plan or any Award shall be within the sole discretion of the Committee, may be made at any time and shall be final, conclusive and binding upon any Participant, any holder or beneficiary of any Award and any employee of the Company or any Affiliate.

(b) Delegation. The Committee may delegate its powers and duties under the Plan to one or more officers of the Company or any Affiliate or a committee of such officers, subject to such terms, conditions and limitations as the Committee may establish in its sole discretion, provided, however, that the Committee shall not delegate its powers and duties under the Plan (i) with regard to officers or directors of the Company or any Affiliate who are subject to Section 16 of the Securities Exchange Act of 1934, as amended or (ii) in such a manner as would cause the Plan not to comply with the requirements of Section 162(m) of the Code.

(c) Power and Authority of the Board of Directors. Notwithstanding anything to the contrary contained herein, the Board may, at any time and from time to time, without any further action of the Committee, exercise the powers and duties of the Committee under the Plan.

### Section 4. Shares Available for Awards.

-----

(a) Shares Available. Subject to adjustment as provided in Section 4(c) of the Plan, the aggregate number of Shares that may be issued under all

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Awards under the Plan shall be 1,750,000. Shares to be issued under the Plan may be either authorized but unissued Shares or Shares acquired in the open market or otherwise. Any Shares that are used by a Participant as full or partial payment to the Company of the purchase price relating to an Award, or in connection with the satisfaction of tax obligations relating to an Award, shall again be available for granting Awards (other than Incentive Stock Options) under the Plan. In addition, if any Shares covered by an Award or to which an Award relates are not purchased or are forfeited, or if an Award otherwise terminates without delivery of any Shares, then the number of Shares counted against the aggregate number of Shares available under the Plan with respect to such Award, to the extent of any such forfeiture or termination, shall again be available for granting Awards under the Plan. Notwithstanding the foregoing, the number of Shares available for granting Incentive Stock Options under the Plan shall not exceed 1,750,000, subject to adjustment as provided in the Plan and subject to the provisions of Section 422 or 424 of the Code or any successor provision.

(b) Accounting for Awards. For purposes of this Section 4, if an Award entitles the holder thereof to receive or purchase Shares, the number of Shares covered by such Award or to which such Award relates shall be counted on the date of grant of such Award against the aggregate number of Shares available for granting Awards under the Plan.

(c) Adjustments. In the event that the Committee shall determine that any dividend or other distribution (whether in the form of cash, Shares, other securities or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase or exchange of Shares or other securities of the Company, issuance of warrants or other rights to purchase Shares or other securities of the Company or other similar corporate transaction or event affects the Shares such that an adjustment is determined by the Committee to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, then the Committee shall, in such manner as it may deem equitable, adjust any or all of (i) the number and type of Shares (or other securities or other property) that thereafter may be made the subject of Awards, (ii) the number and type of Shares (or other securities or other property) subject to outstanding Awards and (iii) the purchase or exercise price with respect to any Award; provided, however, that the number of Shares covered by any Award or to which such Award relates shall always be a whole number.

(d) Award Limitations Under the Plan. No Eligible Person may be granted any Award or Awards under the Plan, the value of which Award or Awards is based solely on an increase in the value of the Shares after the date of grant of such Award or Awards, for more than 500,000 Shares (subject to adjustment as provided for in Section 4(c) of the Plan), in the aggregate in any calendar year. The foregoing annual limitation specifically includes the grant of any Award or Awards representing "qualified performance-based compensation" within the meaning of Section 162(m) of the Code.

### Section 5. Eligibility.

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Any Eligible Person shall be eligible to be designated a Participant. In determining which Eligible Persons shall receive an Award and the terms of any Award, the Committee may take into account the nature of the services rendered by the respective Eligible Persons, their present and potential contributions to the success of the Company or such other factors as the Committee, in its discretion, shall deem relevant. Notwithstanding the foregoing, an Incentive Stock Option may only be granted to full or part-time employees (which term as used herein includes, without limitation, officers and Directors who are also employees), and an Incentive Stock Option shall not be granted to an employee of

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an Affiliate unless such Affiliate is also a "subsidiary corporation" of the Company within the meaning of Section 424(f) of the Code or any successor provision.

### Section 6. Awards.

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(a) Options. The Committee is hereby authorized to grant Options to Participants with the following terms and conditions and with such additional terms and conditions not inconsistent with the provisions of the Plan as the Committee shall determine:

(i) Exercise Price. The purchase price per Share purchasable under an Option shall be determined by the Committee; provided, however, that such purchase price shall not be less than 100% of the Fair Market Value of a Share on the date of grant of such Option.

(ii) Option Term. The term of each Option shall be fixed  
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by the Committee.

(iii) Time and Method of Exercise. The Committee shall determine the time or times at which an Option may be exercised in whole or in part and the method or methods by which, and the form or forms (including, without limitation, cash, Shares, promissory notes, other securities, other Awards or other property, or any combination thereof, having a Fair Market Value on the exercise date equal to the relevant exercise price) in which, payment of the exercise price with respect thereto may be made or deemed to have been made.

(iv) Reload Options. The Committee may grant Reload Options, separately or together with another Option, pursuant to which, subject to the terms and conditions established by the Committee, the Participant would be granted a new Option when the payment of the exercise price of a previously granted option is made by the delivery of Shares owned by the Participant pursuant to Section 6(a)(iii) of the Plan or the relevant provisions of another plan of the Company, and/or when Shares are tendered or withheld as payment of the amount to be withheld under applicable income tax laws in connection with the exercise of an Option, which new Option would be an Option to purchase the number of Shares not exceeding the sum of (A) the number of Shares so provided as consideration upon the exercise of the previously granted option to which such Reload Option relates and (B) the number of Shares, if any, tendered or withheld as payment of the amount to be withheld under applicable tax laws in connection with the exercise of the option to which such Reload Option relates pursuant to the relevant provisions of the plan or agreement relating to such option. Reload Options may be granted with respect to Options previously granted under the Plan or any other stock option plan of the Company or may be granted in connection with any Option granted under the Plan or any other stock option plan of the Company at the time of such grant. Such Reload Options shall have a per share exercise price equal to the Fair Market Value of one Share as of the date of grant of the new Option. Any Reload Option shall be subject to availability of sufficient Shares for grant under the Plan.

(v) With respect to Incentive Stock Options granted under the Plan, to the extent that the aggregate Fair Market Value (determined at the time the Incentive Stock Option is granted) of the Shares with respect to which all Incentive Stock Options are exercisable for the first time by an employee during any calendar year exceeds \$100,000, in accordance with Section 422A(d) of the Code, such Options shall be treated as Non-Qualified Stock Options.

(b) Stock Appreciation Rights. The Committee is hereby authorized to grant Stock Appreciation Rights to Participants subject to the terms of the Plan



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and any applicable Award Agreement. A Stock Appreciation Right granted under the Plan shall confer on the holder thereof a right to receive upon exercise thereof the excess of (i) the Fair Market Value of one Share on the date of exercise (or, if the Committee shall so determine, at any time during a specified period before or after the date of exercise) over (ii) the grant price of the Stock Appreciation Right as specified by the Committee, which price shall not be less than 100% of the Fair Market Value of one Share on the date of grant of the Stock Appreciation Right. Subject to the terms of the Plan and any applicable Award Agreement, the grant price, term, methods of exercise, dates of exercise, methods of settlement and any other terms and conditions of any Stock Appreciation Right shall be as determined by the Committee. The Committee may impose such conditions or restrictions on the exercise of any Stock Appreciation Right as it may deem appropriate.

(c) Restricted Stock and Restricted Stock Units. The Committee is hereby authorized to grant Restricted Stock and Restricted Stock Units to Participants with the following terms and conditions and with such additional terms and conditions not inconsistent with the provisions of the Plan as the Committee shall determine:

(i) Restrictions. Shares of Restricted Stock and Restricted Stock Units shall be subject to such restrictions as the Committee may impose (including, without limitation, a waiver by the Participant of the right to vote or to receive any dividend or other right or property with respect thereto), which restrictions may lapse separately or in combination at such time or times, in such installments or otherwise as the Committee may deem appropriate.

(ii) Stock Certificates. Any Restricted Stock granted under the Plan shall be registered in the name of the Participant and shall bear an appropriate legend referring to the terms, conditions and restrictions applicable to such Restricted Stock. In the case of Restricted Stock Units, no Shares shall be issued at the time such Awards are granted.

(iii) Forfeiture. Except as otherwise determined by the Committee, upon termination of employment (as determined under criteria established by the Committee) during the applicable restriction period, all Shares of Restricted Stock and all Restricted Stock Units at such time subject to restriction shall be forfeited and reacquired by the Company; provided, however, that the Committee may, when it finds that a waiver would be in the best interest of the Company, waive in whole or in part any or all remaining restrictions with respect to Shares of Restricted Stock or Restricted Stock Units. Upon the lapse or waiver of restrictions and the restricted period relating to Restricted Stock Units evidencing the right to receive Shares, such Shares shall be issued and delivered to the holders of the Restricted Stock Units.

(d) Performance Awards. The Committee is hereby authorized to grant Performance Awards to Participants subject to the terms of the Plan and any applicable Award Agreement. A Performance Award granted under the Plan (i) may be denominated or payable in cash, Shares (including, without limitation, Restricted Stock and Restricted Stock Units), other securities, other Awards or other property and (ii) shall confer on the holder thereof the right to receive payments, in whole or in part, upon the achievement of such performance goals during such performance periods as the Committee shall establish. Subject to the terms of the Plan and any applicable Award Agreement, the performance goals to be achieved during any performance period, the length of any performance period, the amount of any Performance Award granted, the amount of any payment or transfer to be made pursuant to any Performance Award and any other terms and conditions of any Performance Award shall be determined by the Committee.

(e) Other Stock Grants. The Committee is hereby authorized, subject

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to the terms of the Plan and any applicable Award Agreement, to grant to Participants Shares without restrictions thereon as are deemed by the Committee to be consistent with the purpose of the Plan.

(f) Other Stock-Based Awards. The Committee is hereby authorized to grant to Participants subject to the terms of the Plan and any applicable Award Agreement, such other Awards that are denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to, Shares (including, without limitation, securities convertible into Shares), as are deemed by the Committee to be consistent with the purpose of the Plan. Shares or other securities delivered pursuant to a purchase right granted under this Section 6(f) shall be purchased for such consideration, which may be paid by such method or methods and in such form or forms (including, without limitation, cash, Shares, promissory notes, other securities, other Awards or other property or any combination thereof), as the Committee shall determine, the value of which consideration, as established by the Committee, shall not be less than 100% of the Fair Market Value of such Shares or other securities as of the date such purchase right is granted.

(g) General.

(i) No Cash Consideration for Awards. Awards shall be

granted for no cash consideration or for such minimal cash consideration as may be required by applicable law.

(ii) Awards May Be Granted Separately or Together. Awards may, in the discretion of the Committee, be granted either alone or in addition to, in tandem with or in substitution for any other Award or any award granted under any plan of the Company or any Affiliate other than the Plan. Awards granted in addition to or in tandem with other Awards or in addition to or in tandem with awards granted under any such other plan of the Company or any Affiliate may be granted either at the same time as or at a different time from the grant of such other Awards or awards.

(iii) Forms of Payment under Awards. Subject to the terms of the Plan and of any applicable Award Agreement, payments or transfers to be made by the Company or an Affiliate upon the grant, exercise or payment of an Award may be made in such form or forms as the Committee shall determine (including, without limitation, cash, Shares, promissory notes, other securities, other Awards or other property or any combination thereof), and may be made in a single payment or transfer, in installments or on a deferred basis, in each case in accordance with rules and procedures established by the Committee. Such rules and procedures may include, without limitation, provisions for the payment or crediting of reasonable interest on installment or deferred payments or the grant or crediting of dividend equivalents with respect to installment or deferred payments.

(iv) Limits on Transfer of Awards. No Award (other than Other Stock Grants) and no right under any such Award shall be transferable by a Participant otherwise than by will or by the laws of descent and distribution; provided, however, that, if so determined by the Committee, a Participant may, in the manner established by the Committee, transfer Options (other than Incentive Stock Options) or designate a beneficiary or beneficiaries to exercise the rights of the Participant and receive any property distributable with respect to any Award upon the death of the Participant. Each Award or right under any Award shall be exercisable during the Participant's lifetime only by the Participant or, if permissible under applicable law, by the Participant's guardian or legal representative. No Award or right under any such Award may be pledged, alienated, attached or otherwise encumbered, and any purported pledge,

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alienation, attachment or encumbrance thereof shall be void and unenforceable against the Company or any Affiliate.

(v) Term of Awards. The term of each Award shall be for -----  
such period as may be determined by the Committee.

(vi) Restrictions; Securities Exchange Listing. All Shares or other securities delivered under the Plan pursuant to any Award or the exercise thereof shall be subject to such restrictions as the Committee may deem advisable under the Plan, applicable federal or state securities laws and regulatory requirements, and the Committee may cause appropriate entries to be made or legends to be affixed to reflect such restrictions. If any securities of the Company are traded on a securities exchange, the Company shall not be required to deliver any Shares or other securities covered by an Award unless and until such Shares or other securities have been admitted for trading on such securities exchange.

### Section 7. Amendment and Termination; Adjustments. -----

(a) Amendments to the Plan. The Board may amend, alter, suspend, discontinue or terminate the Plan at any time; provided, however, that, notwithstanding any other provision of the Plan or any Award Agreement, without the approval of the shareholders of the Company, no such amendment, alteration, suspension, discontinuation or termination shall be made that, absent such approval:

(i) would violate the rules or regulations of the Nasdaq National Market System or any securities exchange that are applicable to the Company; or

(ii) would cause the Company to be unable, under the Code, to grant Incentive Stock Options under the Plan.

(b) Amendments to Awards. The Committee may waive any conditions of or rights of the Company under any outstanding Award, prospectively or retroactively. Except as otherwise provided herein or in the Award Agreement, the Committee may not amend, alter, suspend, discontinue or terminate any outstanding Award, prospectively or retroactively, if such action would adversely affect the rights of the holder of such Award, without the consent of the Participant or holder or beneficiary thereof.

(c) Correction of Defects, Omissions and Inconsistencies. The Committee may correct any defect, supply any omission or reconcile any inconsistency in the Plan or any Award in the manner and to the extent it shall deem desirable to carry the Plan into effect.

### Section 8. Income Tax Withholding; Tax Bonuses. -----

(a) Withholding. In order to comply with all applicable federal or state income tax laws or regulations, the Company may take such action as it deems appropriate to ensure that all applicable federal or state payroll, withholding, income or other taxes, which are the sole and absolute responsibility of a Participant, are withheld or collected from such Participant. In order to assist a Participant in paying all or a portion of the federal and state taxes to be withheld or collected upon exercise or receipt of (or the lapse of restrictions relating to) an Award, the Committee, in its discretion and subject to such additional terms and conditions as it may adopt, may permit the Participant to satisfy such tax obligation by (i) electing to

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have the Company withhold a portion of the Shares otherwise to be delivered upon exercise or receipt of (or the lapse of restrictions relating to) such Award with a Fair Market Value equal to the amount of such taxes or (ii) delivering to the Company Shares other than Shares issuable upon exercise or receipt of (or the lapse of restrictions relating to) such Award with a Fair Market Value equal to the amount of such taxes. The election, if any, must be made on or before the date that the amount of tax to be withheld is determined.

(b) Tax Bonuses. The Committee, in its discretion, shall have the authority, at the time of grant of any Award under this Plan or at any time thereafter, to approve cash bonuses to designated Participants to be paid upon their exercise or receipt of (or the lapse of restrictions relating to) Awards in order to provide funds to pay all or a portion of federal and state taxes due as a result of such exercise or receipt (or the lapse of such restrictions). The Committee shall have full authority in its discretion to determine the amount of any such tax bonus.

### Section 9. General Provisions.

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(a) No Rights to Awards. No Eligible Person, Participant or other Person shall have any claim to be granted any Award under the Plan, and there is no obligation for uniformity of treatment of Eligible Persons, Participants or holders or beneficiaries of Awards under the Plan. The terms and conditions of Awards need not be the same with respect to any Participant or with respect to different Participants.

(b) Award Agreements. No Participant will have rights under an Award granted to such Participant unless and until an Award Agreement shall have been duly executed on behalf of the Company and, if requested by the Company, signed by the Participant.

(c) No Limit on Other Compensation Arrangements. Nothing contained in the Plan shall prevent the Company or any Affiliate from adopting or continuing in effect other or additional compensation arrangements, and such arrangements may be either generally applicable or applicable only in specific cases.

(d) No Right to Employment. The grant of an Award shall not be construed as giving a Participant the right to be retained in the employ of the Company or any Affiliate, nor will it affect in any way the right of the Company or an Affiliate to terminate such employment at any time, with or without cause. In addition, the Company or an Affiliate may at any time dismiss a Participant from employment free from any liability or any claim under the Plan or any Award, unless otherwise expressly provided in the Plan or in any Award Agreement.

(e) Governing Law. The validity, construction and effect of  
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the Plan or any Award, and any rules and regulations relating to the Plan or any Award, shall be determined in accordance with the laws of the State of Minnesota.

(f) Severability. If any provision of the Plan or any Award is or becomes or is deemed to be invalid, illegal or unenforceable in any jurisdiction or would disqualify the Plan or any Award under any law deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to applicable laws, or if it cannot be so construed or deemed amended without, in the determination of the Committee, materially altering the purpose or intent of the Plan or the Award, such provision shall be stricken as to such jurisdiction or Award, and the remainder of the Plan or any such Award shall remain in full force and effect.

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(g) No Trust or Fund Created. Neither the Plan nor any Award shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company or any Affiliate and a Participant or any other Person. To the extent that any Person acquires a right to receive payments from the Company or any Affiliate pursuant to an Award, such right shall be no greater than the right of any unsecured general creditor of the Company or any Affiliate.

(h) No Fractional Shares. No fractional Shares shall be issued or delivered pursuant to the Plan or any Award, and the Committee shall determine whether cash shall be paid in lieu of any fractional Shares or whether such fractional Shares or any rights thereto shall be canceled, terminated or otherwise eliminated.

(i) Headings. Headings are given to the Sections and subsections of the Plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of the Plan or any provision thereof.

### Section 10. Effective Date of the Plan.

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The Plan shall be effective as of the date on which the approval of the shareholders of the Company is obtained (the "Effective Date").

### Section 11. Term of the Plan.

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No Award shall be granted under the Plan after the tenth anniversary of the Effective Date or any earlier date of discontinuation or termination established pursuant to Section 7(a) of the Plan. However, unless otherwise expressly provided in the Plan or in an applicable Award Agreement, any Award theretofore granted may extend beyond such date.

Exhibit 10.25

## AMENDED AND RESTATED EMPLOYMENT AGREEMENT

THIS AMENDED AND RESTATED EMPLOYMENT AGREEMENT (the "Agreement") is made effective as of September 18, 2000 (the "Effective Date"), between CURATIVE HEALTH SERVICES, INC., a Minnesota corporation (the "Company"), and W. LEROY MCKINLEY ("Executive").

WHEREAS, the Executive has been in the employ of the Company pursuant to that certain Employment Agreement (the "Original Agreement") dated as of August 15, 1998, as amended, on the terms and conditions set forth therein;

WHEREAS, the Company recognizes that Executive's contribution to the growth and success of the Company has been substantial and therefore desires to assure the Company of Executive's continued employment; and

WHEREAS, based on the foregoing, the Company and Executive now wish to amend and restate the terms of the Original Agreement.

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NOW, THEREFORE, in consideration of the promises and the mutual covenants and agreements herein contained, the Company and Executive hereby agree that the Original Agreement shall be and is hereby amended and restated in its entirety to read as follows:

### 1. Employment

1.1 Employment and Duties. The Company hereby agrees to employ Executive for the Term (as hereinafter defined) as Senior Vice President, subject to the direction of the President, and in connection therewith, to perform such duties as he shall reasonably be directed by the President to perform. Executive hereby accepts such employment and agrees to render such services. Executive shall perform his duties and carry out his responsibilities hereunder in a diligent manner, shall devote his exclusive and full working time, attention and effort to the affairs of the Company, shall use his best efforts to promote the interests of the Company and shall be just and faithful in the performance of his duties and in carrying out his responsibilities.

1.2 Location. The principal location for performance of Executive's services hereunder shall be at the Company's executive offices, which are currently located in Hauppauge, New York, subject to reasonable travel requirements during the course of such performance.

### 2. Employment Term

The term of Executive's employment hereunder (the "Term") shall be deemed to commence on the Effective Date and shall end on the first anniversary of the Effective Date, unless sooner terminated as hereinafter provided; provided, however, that the Term shall be automatically renewed and extended for an additional period of one (1) year on each anniversary thereafter unless either party gives a Notice of Termination (as defined below) to the other party at least three (3) months prior to such anniversary.

### 3. Compensation and Benefits

#### 3.1 Cash Compensation.

(a) Base Salary. The Company shall pay Executive an annual salary of \$187,200 payable in bi-weekly installments, in arrears (the "Base Salary"). The Base Salary shall be reviewed annually by the Company's Board of Directors and may be increased, but not decreased (unless mutually agreed upon by Executive and the Company).

(b) Bonus Plan. Executive shall be entitled to participate in  
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the Company's Executive Bonus Compensation Program, in accordance with and subject to the terms and provisions thereof.

3.2 Participation in Benefit Plans. Executive shall be entitled to participate in all employee benefit plans or programs of the Company to the extent that his position, title, tenure, salary, age, health and other qualifications make him eligible to participate. The Company does not guarantee the continuance of any particular employee benefit plan or program during the Term, and Executive's participation in any such plan or program shall be subject to all terms, provisions, rules and regulations applicable thereto. Executive

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will be entitled to twenty (20) days of vacation per year, to be used in accordance with the Company's vacation policy for senior executives as it may change from time to time. For the Benefit Period, if any, (as hereinafter defined), the Company will arrange to provide Executive with welfare benefits (including life and health insurance benefits) of substantially similar design and cost to Executive as the welfare benefits and other employee benefits available to Executive prior to Executive's or the Company's, as the case may be, receipt of Notice of Termination (as hereinafter defined). In the event that Executive shall obtain full-time employment providing welfare benefits during the Benefit Period, such benefits as otherwise receivable hereunder by Executive shall be discontinued.

3.3 Expenses. The Company will pay or reimburse Executive for all reasonable and necessary out-of-pocket expenses incurred by him in the performance of his duties under this Agreement. Executive shall keep detailed and accurate records of expenses incurred in connection with the performance of his duties hereunder and reimbursement therefor shall be in accordance with policies and procedures to be established from time to time by the Board.

3.4 Automobile Expenses. During the Term and in accordance with the Company's Executive Automobile Policy, Executive shall be repaid by the Company for the monthly lease expense for an automobile leased in the name of the Executive and for all normal automobile operating expenses incurred by the Executive in the performance of his duties under this Agreement.

### 4. Termination of Employment

#### 4.1 Definitions

(a) "Benefit Period" shall mean (i) the twelve (12) month period commencing on the Date of Termination which occurs in connection with a termination of employment described in the first sentence of Section 4.5(a), or (ii) the twenty-four (24) month period commencing on the Date of Termination which occurs in connection with a termination of employment described in the first sentence of Section 4.5(b).

(b) "Cause" shall mean any of the following:

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(i) any act or failure to act (or series or combination thereof) by Executive done with the intent to harm in any material respect to the interests of the Company;

(ii) the commission by Executive of a felony;

(iii) the perpetration by Executive of a dishonest act or common law fraud against the Company or any subsidiary thereof;

(iv) a grossly negligent act or failure to act (or series or combination thereof) by Executive detrimental in any material respect to the interests of the Company;

(v) the material breach by Executive of his agreements or obligations under this Agreement; or

(vi) the continued refusal to follow the directives of the President or Board of Directors that are consistent with Executive's duties and

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responsibilities identified in Section 1.1 hereof.

(c) A "Change of Control" shall mean any of the following:

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(i) a sale of all or substantially all of the assets of the Company;

(ii) the acquisition of more than eighty percent (80%) of the Common Stock of the Company (with all classes or series thereof treated as a single class) by any person or group of persons, except a Permitted Shareholder (as hereinafter defined), acting in concert. A "Permitted Shareholder" means a holder, as of the date of the Plan was adopted by the Company, of Common Stock;

(iii) a reorganization of the Company wherein the holders of Common Stock of the Company receive stock in another company, a merger of the Company with another company wherein there is an eighty percent (80%) or greater change in the ownership of the Common Stock of the Company as a result of such merger, or any other transaction in which the Company (other than as the parent corporation) is consolidated for federal income tax purposes or is eligible to be consolidated for federal income tax purposes with another corporation;

(iv) in the event that the Common Stock is traded on an established securities market, a public announcement that any person has acquired or has the right to acquire beneficial ownership of fifty-one percent (51%) or more of the then-outstanding Common Stock and for this purpose the terms "person" and "beneficial ownership" shall have the meanings provided in Section 13(d) of the Securities and Exchange Act of 1934 or related rules promulgated by the Securities and Exchange Commission, or the commencement of or public announcement of an intention to make a tender offer or exchange offer for fifty-one percent (51%) or more of the then outstanding Common Stock;

(v) a majority of the Board of Directors is not comprised of Continuing Directors. A "Continuing Director" means a director

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recommended by the Board of Directors of the Company for election as a director of the Company by the stockholders; or

(vi) the Board of Directors of the Company, in its sole and absolute discretion, determines that there has been a sufficient change in the share ownership of the Company to constitute a change of effective ownership or control of the Company.

(d) "Good Reason" shall mean, within the twelve (12) month period immediately following a Change of Control, the occurrence of any one or more of the following events:

(i) the assignment to Executive of any duties inconsistent in any respect with Executive's position (including status, offices, title, and reporting requirements), authority, duties or other responsibilities as in effect immediately prior to the Change of Control or any other action of the Company that results in a diminishment in such position, authority, duties or responsibilities, other than an insubstantial and inadvertent action that is remedied by the Company promptly after receipt of notice thereof given by Executive;

(ii) a reduction by the Company in Executive's Base Salary as



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in effect on the date hereof and as the same shall be increased from time to time hereafter;

(iii) the Company's requiring Executive to be based at a location in excess of fifty (50) miles from the location of Executive's principal office immediately prior to the Change of Control;

(iv) the failure by the Company to (a) continue in effect any material compensation or benefit plan, program, policy or practice in which Executive was participating at the time of the Change of Control or (b) provide Executive with compensation and benefits at least equal (in terms of benefit levels and/or reward opportunities) to those provided for under each employee benefit plan, program, policy and practice as in effect immediately prior to the Change of Control (or as in effect following the Change of Control, if greater);

(v) the failure of the Company to obtain a satisfactory agreement from any successor to the Company to assume and agree to perform this Agreement; and

(vi) any purported termination by the Company of Executive's employment that is not effected pursuant to a Notice of Termination (as defined below).

(e) "Date of Termination" shall mean the date specified in the Notice of Termination (as hereinafter defined) (except in the case of Executive's death, in which case Date of Termination shall be the date of death); provided, however, that if Executive's employment is terminated by the Company other than for Cause, the date specified in the Notice of Termination shall be at least thirty (30) days from the date the Notice of Termination is given to Executive and if Executive's employment is terminated by Executive for Good Reason, the date specified in the Notice of Termination shall not be more than sixty (60) days from the date the Notice of Termination is given to the Company.

(f) "Notice of Termination" shall mean a written notice either from the Company to Executive, or Executive to the Company, that indicates Section 2 or the specific provision of Section 4 of this Agreement relied upon as the reason for such termination or nonrenewal, the Date of Termination, and, in reasonable detail, the facts and circumstances claimed to provide a basis for termination or nonrenewal pursuant to Section 2 or this Section 4 of this Agreement.

4.2 Termination Upon Death or Disability. This Agreement, and Executive's employment hereunder, shall terminate automatically and without the necessity of any action on the part of the Company upon the death of Executive. In addition, if at any time during the Term Executive shall become physically or mentally disabled, whether totally or partially, so that he is unable substantially to perform his duties and services hereunder for (i) a period of six (6) consecutive months, or (ii) for shorter periods aggregating six (6) months during any twelve (12) month period, the Company may at any time after the last day of the sixth consecutive month of disability or the day on which the shorter periods of disability shall have equaled an aggregate of six (6) months, by written notice to Executive (but before Executive has recovered from such disability), terminate this Agreement and Executive's employment hereunder.

4.3 Company's and Executive's Right to Terminate-Prior to Change of Control. Prior to a Change of Control, this Agreement and Executive's employment

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hereunder may be terminated at any time by the Company, with or without Cause, upon thirty (30) days prior written notice to Executive, and by Executive, at any time, upon thirty (30) days prior written notice to the Company. Any termination of Executive's employment by the Company without Cause prior to a Change of Control that occurs at the request or insistence of any person (other than the Company) relating to such Change of Control shall be deemed to have occurred after the Change of Control for the purposes of this Agreement.

4.4 Company's and Executive's Right to Terminate—Following a Change of Control. Following a Change of Control, this Agreement and Executive's employment hereunder may be terminated at any time (i) by the Company, with or without Cause, upon thirty (30) days prior written notice to Executive, and (ii) by Executive for Good Reason upon thirty (30) days prior written notice to the Company. Executive's right to terminate his employment pursuant to this Section 4.4 shall not be affected by incapacity due to physical or mental illness. Executive's continued employment following a Change of Control shall not constitute consent to, or a waiver of rights with respect to, any circumstance constituting Good Reason hereunder.

### 4.5 Compensation Upon Termination.

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(a) Termination Prior to Change of Control. In the event the Company terminates (or elects not to renew) this Agreement without Cause, and such termination (or nonrenewal) without Cause occurs prior to any Change of Control, Executive shall be entitled to receive his Base Salary through the Date of Termination, the welfare benefits described in Section 3.2 for the Benefit Period, and not later than thirty (30) days after the Date of Termination, a lump sum severance payment equal to the sum of Executive's then Current Base Salary plus the arithmetic average of payments made to Executive pursuant to the Company's Executive Bonus Compensation Program with respect to the three (3) fiscal years immediately preceding the fiscal year in which the Date of Termination occurs. In addition, to the extent not otherwise required under the Company's Stock Option Plan or any award agreement with Executive, any unvested stock option awards theretofore awarded to Executive which would otherwise vest and become exercisable during the twelve (12) month period commencing on the Date of Termination shall vest and become exercisable on the Date of Termination. In the event this Agreement is terminated (or not renewed) for any reason other than by the Company without Cause, and such termination (or nonrenewal) occurs prior to a Change of Control, Executive shall not be entitled to the continuation of any compensation, bonuses or benefits provided hereunder, or any other payments following the Date of Termination, other than Base Salary earned through such Date of Termination.

(b) Termination Following Change of Control. If this Agreement is terminated (or not renewed) (i) by the Company without Cause, or (ii) by Executive for Good Reason during the twelve (12) month period immediately following a Change of Control, and such termination (or nonrenewal) occurs following a Change of Control, Executive shall be entitled to receive his full Base Salary through the Date of Termination, the welfare benefits described in Section 3.2 for the Benefit Period and, not later than thirty (30) days after the Date of Termination, a lump sum severance payment equal to the product of

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two (2) times the sum of Executive's then current Base Salary plus the arithmetic average of payments made to Executive pursuant to the Company's Executive Bonus Compensation Program with respect to the three (3) fiscal years immediately preceding the fiscal year in which the Date of Termination occurs. In addition, to the extent not otherwise required under the Company's Stock Option Plan or any award agreement with Executive, any unvested stock option awards theretofore awarded to Executive shall vest and become immediately exercisable in full. In the event this Agreement is terminated (or not renewed) for any reason other than (i) by the Company without Cause, or (ii) by Executive for Good Reason, and such termination (or nonrenewal) occurs following a Change of Control, Executive shall not be entitled to the continuation of any compensation, bonuses or benefits provided hereunder, or any other payments following the Date of Termination, other than Base Salary earned through the Date of Termination.

(c) At Executive's option to be exercised by written notice to the Company, the severance benefits payable under this Section 4.5 shall be paid in accordance with the Company's normal payroll procedures over the twelve (12) or twenty-four (24) month period, as the case may be, corresponding to the amount of the payments instead of in a lump sum.

(d) Anything to the contrary contained herein notwithstanding, as a condition to Executive receiving severance benefits to be paid pursuant to this Section 4.5, Executive shall execute and deliver to the Company a general release in form and substance reasonably satisfactory to the Company releasing the Company and its officers, directors, employees and agents from all liabilities, claims and obligations of any nature whatsoever, excepting only the Company's obligations under this Agreement, under any Stock Option Award Agreements, and under any other employee benefit plans or programs in which Executive participates under Section 3.2 hereof, subject to all terms and conditions of such plans or programs and this Agreement.

(e) Anything to the contrary contained herein notwithstanding, in the event that any payment or benefit received or to be received by Executive in connection with a Change in Control of the Company or termination of Executive's employment (whether payable pursuant to the terms of this Agreement or any other plan, contract, agreement or arrangement with the Company, with any person whose actions result in a Change in Control of the Company or with any person constituting a member of an "affiliated group" as defined in Section 280G(d) (5) of the Internal Revenue Code of 1986, as amended (the "Code"), with the Company or with any person whose actions result in a Change in Control of the Company (collectively, the "Total Payments")) would not be deductible (in whole or in part) by the Company or such other person making such payment or providing such benefit solely as a result of Section 280G of the Code, the amount payable to Executive pursuant to this Section 4.5 shall be reduced until no portion of the Total Payments is not deductible solely as a result of Section 280G of the Code or such amount payable to Executive pursuant to Section 4.5 is reduced to zero. For purposes of this limitation, (a) no portion of the Total Payments the receipt or enjoyment of which Executive shall have effectively waived in writing prior to the date of payment of the amount pursuant to Section 4.5 shall be taken into account; (b) no portion of the Total Payments shall be taken into account which in the opinion of tax counsel selected by the Company and reasonably acceptable to Executive does not constitute a "parachute payment" within the meaning of Section 280G(b) (2) of the Code; (c) the payment pursuant to Section 4.5 shall be reduced only to the extent necessary so that the Total Payments (other than those referred to in the immediately preceding clause (b)) in their entirety constitute reasonable compensation within the meaning of

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Section 280G(b) (4) (B) of the Code, in the opinion of the tax counsel referred to in the immediately preceding clause (b); and (d) the value of any other non-cash benefit or of any deferred cash payment included in the Total Payments shall be determined by the Company's independent auditors in accordance with the principles of Sections 280G(d) (3) and (4) of the Code.

### 5. Employment Covenants

5.1 Trade Secrets and Confidential Information. Executive agrees that he shall, during the course of his employment and thereafter, hold inviolate and keep secret all documents, materials, knowledge or other confidential business or technical information of any nature whatsoever disclosed to or developed by him or to which he had access as a result of his employment (hereinafter referred to as "Confidential Information"). Such Confidential Information shall include technical and business information, including, but not limited to, inventions, research and development, engineering, products, designs, manufacture, methods, systems, improvements, trade secrets, formulas, processes, marketing, merchandising, selling, licensing, servicing, customer lists, records or financial information, manuals or Company strategy concerning its business, strategy or policies. Executive agrees that all Confidential Information shall remain the sole and absolute property of the Company. During the course of his employment, Executive shall not use, disclose, disseminate, publish, reproduce or otherwise make available such Confidential Information to any person, firm, corporation or other entity, except for the purpose of conducting business on behalf of the Company. Following the Term, Executive shall not use, disclose, disseminate, publish, reproduce or otherwise make available such Confidential Information to any person, firm, corporation or other entity. Upon termination of his employment with the Company, Executive will leave with or deliver to the Company all records and any compositions, articles, devices, equipment and other items which disclose or embody Confidential Information including all copies or specimens thereof, whether prepared by him or by others. The foregoing restrictions on disclosure of Confidential Information shall apply so long as the information has not properly come into the public domain through no action of Executive.

5.2 Transfer of Inventions. Executive, for himself and his heirs and representatives, will promptly communicate and disclose to the Company, and upon request will, without additional compensation, execute all papers reasonably necessary to assign to the Company or the Company's nominees, free of encumbrance or restrictions, all inventions, discoveries, improvements, whether patentable or not, conceived or originated by Executive solely or jointly with others, at the Company's expense or at the Company's facilities, or at the Company's request, or in the course of his employment, or based on knowledge or information obtained during the Term. All such assignments shall include the patent rights in this and all foreign countries. Notwithstanding the foregoing, this Section 5.2 shall not apply to any invention for which no equipment, supplies, facilities or trade secret information of the Company was used and which was developed entirely on Executive's own time and (a) that does not relate (1) directly to the business of the Company or (2) to the Company's actual or demonstrably anticipated research or development, or (b) that does not result from any work performed by Executive for the Company.

5.3 Exclusivity of Employment. During the Term, Executive shall not directly or indirectly engage in any activity competitive with or adverse to the Company's business or welfare or render a material level of services of a business, professional or commercial nature to any other person or firm, whether for compensation or otherwise.

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5.4 Covenant Not to Compete. Executive agrees to be bound and abide  
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by the following covenant not to compete:

(a) Term and Scope. During his employment with the Company and for a period of two (2) years after the Term, Executive will not render to any Conflicting Organization (as hereinafter defined), services, directly or indirectly, anywhere in the world in connection with any Conflicting Product, except that Executive may accept employment with a large Conflicting Organization whose business is diversified (and which has separate and distinct divisions) if Executive first certifies to the Board of Directors in writing that he has provided a copy of Section 5 of this Agreement to such prospective employer, that such prospective employer is a separate and distinct division of the Conflicting Organization and that Executive will not render services directly or indirectly in respect of any Conflicting Product (as hereinafter defined). Such two-year time period shall be tolled during any period that Executive is engaged in activity in violation of this covenant.

(b) Judicial Action. Executive and the Company agree that, if the period of time or the scope of the restrictive covenant not to compete contained in this Section 5.4 shall be adjudged unreasonable in any court proceeding, then the period of time and/or scope shall be reduced accordingly, so that this covenant may be enforced in such scope and during such period of time as is judged by the court to be reasonable. In the event of a breach or violation of this Section 5.4 by Executive, the parties agree that in addition to all other remedies, the Company shall be entitled to equitable relief for specific performance, and Executive hereby agrees and acknowledges that the Company has no adequate remedy at law for the breach of the covenants contained herein.

(c) Definitions. For purposes of this Agreement, the following  
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terms shall have the following meanings:

"Conflicting Product" means any product, method or process, system or service of any person or organization other than the Company, in existence or under development at the time Executive's employment with the Company terminates, that is the same as or similar to or competes with a product, method or process, system or service of or provided by the Company or any of its affiliates or about which Executive acquires Confidential Information.

"Conflicting Organization" means any person or organization which is engaged in or about to become engaged in, research on or development, production, marketing, licensing, selling or servicing of a Conflicting Product.

5.5 Disclosure to Prospective Employers. Executive will disclose to any prospective employer, prior to accepting employment, the existence of Section 5 of this Agreement. The obligation imposed by this Section 5.5 shall terminate two (2) years after termination of Executive's employment with the Company; provided, however, the running of such two-year period shall be tolled to the extent the covenant not to compete contained in Section 5.4(a) hereof is tolled.

5.6 Non-Solicitation. For one (1) year after termination of employment with the Company for any reason, the Executive shall not directly or indirectly solicit or hire, or assist any other person in soliciting or hiring, any

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employee of the Company (as of the date of termination) or any person who, as of the date of termination, was in the process of being recruited by the Company or induce any such employee to terminate his or her employment with the Company.

### 6. Miscellaneous

6.1 Notices. Any notice required or permitted to be delivered hereunder shall be in writing and shall be deemed to be delivered on the earlier of (i) the date received, or (ii) the date of delivery, refusal or non-delivery indicated on the return receipt, if deposited in a United States Postal Service depository, postage prepaid, sent registered or certified mail, return receipt requested, addressed to the party to receive the same at the address of such party set forth below, or at such other address as may be designated in a notice delivered or mailed as herein provided.

To Company: Curative Health Services, Inc.  
150 Motor Parkway, 4th Flr.  
Hauppauge, NY 11788

Executive: W. Leroy McKinley  
4730 Twin Brook Circle  
Doylestown, PA 18901

6.2 Headings. The headings of the articles and sections of this Agreement are inserted for convenience only and shall not be deemed a part of or affect the construction or interpretation of any provision hereof.

6.3 Modifications; Waiver. No modification of any provision of this Agreement or waiver of any right or remedy herein provided shall be effective for any purpose unless specifically set forth in a writing signed by the party to be bound thereby. No waiver of any right or remedy in respect of any occurrence or event on one occasion shall be deemed a waiver of such right or remedy in respect of such occurrence or event on any other occasion.

6.4 Entire Agreement. This Agreement contains the entire agreement of the parties with respect to the subject matter hereof and supersedes all other agreements, oral or written, heretofore made with respect thereto, including, without limitation, the Original Agreement.

6.5 Severability. Any provision of this Agreement prohibited by or unlawful or unenforceable under any applicable law of any jurisdiction shall as to such jurisdiction be ineffective without affecting any other provision hereof. To the full extent, however, that the provisions of such applicable law may be waived, they are hereby waived, to the end that this Employment Agreement be deemed to be a valid and binding agreement enforceable in accordance with its terms.

6.6 Controlling Law. This Agreement has been entered into by the  
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parties in the State of New York and shall be continued and enforced in accordance with the laws of that State.

6.7 Assignments. The Company shall have the right to assign this Agreement and to delegate all rights, duties and obligations hereunder to any entity that

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controls the Company, that the Company controls or that may be the result of the merger, consolidation, acquisition or reorganization of the Company and another entity. Executive agrees that this Agreement is personal to him and his rights and interest hereunder may not be assigned, nor may his obligations and duties hereunder be delegated (except as to delegation in the normal course of operation of the Company), and any attempted assignment or delegation in violation of this provision shall be void.

6.8 Attorney Fees. In the event of litigation between the parties, to enforce their respective rights under this Agreement, the prevailing party shall be entitled to receive from the non-prevailing party reimbursement of the prevailing party's reasonable attorney's fees and costs at all levels of trial and appeal.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the Effective Date.

CURATIVE HEALTH SERVICES, INC.

By:

Its: President

Executive

Exhibit 10.26

### AMENDED AND RESTATED EMPLOYMENT AGREEMENT

THIS AMENDED AND RESTATED EMPLOYMENT AGREEMENT (the "Agreement") is made effective as of September 18, 2000 (the "Effective Date"), between CURATIVE HEALTH SERVICES, INC., a Minnesota corporation (the "Company"), and JULE CAHILL CRIDER ("Executive").

WHEREAS, the Executive has been in the employ of the Company pursuant to that certain Employment Agreement (the "Original Agreement") dated as of December 12, 1995, as amended, on the terms and conditions set forth therein;

WHEREAS, the Company recognizes that Executive's contribution to the growth and success of the Company has been substantial and therefore desires to assure the Company of Executive's continued employment; and

WHEREAS, based on the foregoing, the Company and Executive now wish to amend and restate the terms of the Original Agreement.

NOW, THEREFORE, in consideration of the promises and the mutual covenants and agreements herein contained, the Company and Executive hereby agree that the Original Agreement shall be and is hereby amended and restated in its entirety to read as follows:

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### 1. Employment

1.1 Employment and Duties. The Company hereby agrees to employ Executive for the Term (as hereinafter defined) as Senior Vice President, subject to the direction of the President, and in connection therewith, to perform such duties as she shall reasonably be directed by the President to perform. Executive hereby accepts such employment and agrees to render such services. Executive shall perform her duties and carry out her responsibilities hereunder in a diligent manner, shall devote her exclusive and full working time, attention and effort to the affairs of the Company, shall use her best efforts to promote the interests of the Company and shall be just and faithful in the performance of her duties and in carrying out her responsibilities.

1.2 Location. The principal location for performance of Executive's services hereunder shall be at the Company's executive offices, which are currently located in Hauppauge, New York, subject to reasonable travel requirements during the course of such performance.

### 2. Employment Term

The term of Executive's employment hereunder (the "Term") shall be deemed to commence on the Effective Date and shall end on the first anniversary of the Effective Date, unless sooner terminated as hereinafter provided; provided, however, that the Term shall be automatically renewed and extended for an additional period of one (1) year on each anniversary thereafter unless either party gives a Notice of Termination (as defined below) to the other party at least three (3) months prior to such anniversary.

### 3. Compensation and Benefits

#### 3.1 Cash Compensation.

(a) Base Salary. The Company shall pay Executive an annual salary of \$180,000 payable in bi-weekly installments, in arrears (the "Base Salary"). The Base Salary shall be reviewed annually by the Company's Board of Directors and may be increased, but not decreased (unless mutually agreed upon by Executive and the Company).

(b) Bonus Plan. Executive shall be entitled to participate in -----  
the Company's Executive Bonus Compensation Program, in accordance with and subject to the terms and provisions thereof.

3.2 Participation in Benefit Plans. Executive shall be entitled to participate in all employee benefit plans or programs of the Company to the extent that her position, title, tenure, salary, age, health and other qualifications make her eligible to participate. The Company does not guarantee the continuance of any particular employee benefit plan or program during the Term, and Executive's participation in any such plan or program shall be subject to all terms, provisions, rules and regulations applicable thereto. Executive will be entitled to twenty (20) days of vacation per year, to be used in accordance with the Company's vacation policy for senior executives as it may



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change from time to time. For the Benefit Period, if any, (as hereinafter defined), the Company will arrange to provide Executive with welfare benefits (including life and health insurance benefits) of substantially similar design and cost to Executive as the welfare benefits and other employee benefits available to Executive prior to Executive's or the Company's, as the case may be, receipt of Notice of Termination (as hereinafter defined). In the event that Executive shall obtain full-time employment providing welfare benefits during the Benefit Period, such benefits as otherwise receivable hereunder by Executive shall be discontinued.

3.3 Expenses. The Company will pay or reimburse Executive for all reasonable and necessary out-of-pocket expenses incurred by her in the performance of her duties under this Agreement. Executive shall keep detailed and accurate records of expenses incurred in connection with the performance of her duties hereunder and reimbursement therefor shall be in accordance with policies and procedures to be established from time to time by the Board.

3.4 Automobile Expenses. During the Term and in accordance with the Company's Executive Automobile Policy, Executive shall be repaid by the Company for the monthly lease expense for an automobile leased in the name of the Executive and for all normal automobile operating expenses incurred by the Executive in the performance of her duties under this Agreement.

#### 4. Termination of Employment

##### 4.1 Definitions

(a) "Benefit Period" shall mean (i) the twelve (12) month period commencing on the Date of Termination which occurs in connection with a termination of employment described in the first sentence of Section 4.5(a), or (ii) the twenty-four (24) month period commencing on the Date of Termination which occurs in connection with a termination of employment described in the first sentence of Section 4.5(b).

(b) "Cause" shall mean any of the following:

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(i) any act or failure to act (or series or combination thereof) by Executive done with the intent to harm in any material respect to the interests of the Company;

(ii) the commission by Executive of a felony;

(iii) the perpetration by Executive of a dishonest act or common law fraud against the Company or any subsidiary thereof;

(iv) a grossly negligent act or failure to act (or series or combination thereof) by Executive detrimental in any material respect to the interests of the Company;

(v) the material breach by Executive of her agreements or obligations under this Agreement; or

(vi) the continued refusal to follow the directives of the President or Board of Directors that are consistent with Executive's duties and responsibilities identified in Section 1.1 hereof.

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(c) A "Change of Control" shall mean any of the following:

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(i) a sale of all or substantially all of the assets of the Company;

(ii) the acquisition of more than eighty percent (80%) of the Common Stock of the Company (with all classes or series thereof treated as a single class) by any person or group of persons, except a Permitted Shareholder (as hereinafter defined), acting in concert. A "Permitted Shareholder" means a holder, as of the date of the Plan was adopted by the Company, of Common Stock;

(iii) a reorganization of the Company wherein the holders of Common Stock of the Company receive stock in another company, a merger of the Company with another company wherein there is an eighty percent (80%) or greater change in the ownership of the Common Stock of the Company as a result of such merger, or any other transaction in which the Company (other than as the parent corporation) is consolidated for federal income tax purposes or is eligible to be consolidated for federal income tax purposes with another corporation;

(iv) in the event that the Common Stock is traded on an established securities market, a public announcement that any person has acquired or has the right to acquire beneficial ownership of fifty-one percent (51%) or more of the then-outstanding Common Stock and for this purpose the terms "person" and "beneficial ownership" shall have the meanings provided in Section 13(d) of the Securities and Exchange Act of 1934 or related rules promulgated by the Securities and Exchange Commission, or the commencement of or public announcement of an intention to make a tender offer or exchange offer for fifty-one percent (51%) or more of the then outstanding Common Stock;

(v) a majority of the Board of Directors is not comprised of Continuing Directors. A "Continuing Director" means a director

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recommended by the Board of Directors of the Company for election as a director of the Company by the stockholders; or

(vi) the Board of Directors of the Company, in its sole and absolute discretion, determines that there has been a sufficient change in the share ownership of the Company to constitute a change of effective ownership or control of the Company.

(d) "Good Reason" shall mean, within the twelve (12) month period immediately following a Change of Control, the occurrence of any one or more of the following events:

(i) the assignment to Executive of any duties inconsistent in any respect with Executive's position (including status, offices, title, and reporting requirements), authority, duties or other responsibilities as in effect immediately prior to the Change of Control or any other action of the Company that results in a diminishment in such position, authority, duties or responsibilities, other than an insubstantial and inadvertent action that is remedied by the Company promptly after receipt of notice thereof given by Executive;

(ii) a reduction by the Company in Executive's Base Salary as in effect on the date hereof and as the same shall be increased from time to time hereafter;

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(iii) the Company's requiring Executive to be based at a location in excess of fifty (50) miles from the location of Executive's principal office immediately prior to the Change of Control;

(iv) the failure by the Company to (a) continue in effect any material compensation or benefit plan, program, policy or practice in which Executive was participating at the time of the Change of Control or (b) provide Executive with compensation and benefits at least equal (in terms of benefit levels and/or reward opportunities) to those provided for under each employee benefit plan, program, policy and practice as in effect immediately prior to the Change of Control (or as in effect following the Change of Control, if greater);

(v) the failure of the Company to obtain a satisfactory agreement from any successor to the Company to assume and agree to perform this Agreement; and

(vi) any purported termination by the Company of Executive's employment that is not effected pursuant to a Notice of Termination (as defined below).

(e) "Date of Termination" shall mean the date specified in the Notice of Termination (as hereinafter defined) (except in the case of Executive's death, in which case Date of Termination shall be the date of death); provided, however, that if Executive's employment is terminated by the Company other than for Cause, the date specified in the Notice of Termination shall be at least thirty (30) days from the date the Notice of Termination is given to Executive and if Executive's employment is terminated by Executive for Good Reason, the date specified in the Notice of Termination shall not be more than sixty (60) days from the date the Notice of Termination is given to the Company.

(f) "Notice of Termination" shall mean a written notice either from the Company to Executive, or Executive to the Company, that indicates Section 2 or the specific provision of Section 4 of this Agreement relied upon as the reason for such termination or nonrenewal, the Date of Termination, and, in reasonable detail, the facts and circumstances claimed to provide a basis for termination or nonrenewal pursuant to Section 2 or this Section 4 of this Agreement.

4.2 Termination Upon Death or Disability. This Agreement, and Executive's employment hereunder, shall terminate automatically and without the necessity of any action on the part of the Company upon the death of Executive. In addition, if at any time during the Term Executive shall become physically or mentally disabled, whether totally or partially, so that she is unable substantially to perform her duties and services hereunder for (i) a period of six (6) consecutive months, or (ii) for shorter periods aggregating six (6) months during any twelve (12) month period, the Company may at any time after the last day of the sixth consecutive month of disability or the day on which the shorter periods of disability shall have equalled an aggregate of six (6) months, by written notice to Executive (but before Executive has recovered from such disability), terminate this Agreement and Executive's employment hereunder.

4.3 Company's and Executive's Right to Terminate-Prior to Change of Control. Prior to a Change of Control, this Agreement and Executive's employment hereunder may be terminated at any time by the Company, with or without Cause, upon thirty (30) days prior written notice to Executive, and by Executive, at

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any time, upon thirty (30) days prior written notice to the Company. Any termination of Executive's employment by the Company without Cause prior to a Change of Control that occurs at the request or insistence of any person (other than the Company) relating to such Change of Control shall be deemed to have occurred after the Change of Control for the purposes of this Agreement.

4.4 Company's and Executive's Right to Terminate-Following a Change of Control. Following a Change of Control, this Agreement and Executive's employment hereunder may be terminated at any time (i) by the Company, with or without Cause, upon thirty (30) days prior written notice to Executive, and (ii) by Executive for Good Reason upon thirty (30) days prior written notice to the Company. Executive's right to terminate her employment pursuant to this Section 4.4 shall not be affected by incapacity due to physical or mental illness. Executive's continued employment following a Change of Control shall not constitute consent to, or a waiver of rights with respect to, any circumstance constituting Good Reason hereunder.

### 4.5 Compensation Upon Termination.

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(a) Termination Prior to Change of Control. In the event the Company terminates (or elects not to renew) this Agreement without Cause, and such termination (or nonrenewal) without Cause occurs prior to any Change of Control, Executive shall be entitled to receive her Base Salary through the Date of Termination, the welfare benefits described in Section 3.2 for the Benefit Period, and not later than thirty (30) days after the Date of Termination, a lump sum severance payment equal to the sum of Executive's then Current Base Salary plus the arithmetic average of payments made to Executive pursuant to the Company's Executive Bonus Compensation Program with respect to the three (3) fiscal years immediately preceding the fiscal year in which the Date of Termination occurs. In addition, to the extent not otherwise required under the Company's Stock Option Plan or any award agreement with Executive, any unvested stock option awards theretofore awarded to Executive which would otherwise vest and become exercisable during the twelve (12) month period commencing on the Date of Termination shall vest and become exercisable on the Date of Termination. In the event this Agreement is terminated (or not renewed) for any reason other than by the Company without Cause, and such termination (or nonrenewal) occurs prior to a Change of Control, Executive shall not be entitled to the continuation of any compensation, bonuses or benefits provided hereunder, or any other payments following the Date of Termination, other than Base Salary earned through such Date of Termination.

(b) Termination Following Change of Control. If this Agreement is terminated (or not renewed) (i) by the Company without Cause, or (ii) by Executive for Good Reason during the twelve (12) month period immediately following a Change of Control, and such termination (or nonrenewal) occurs following a Change of Control, Executive shall be entitled to receive her full Base Salary through the Date of Termination, the welfare benefits described in Section 3.2 for the Benefit Period and, not later than thirty (30) days after the Date of Termination, a lump sum severance payment equal to the product of two (2) times the sum of Executive's then current Base Salary plus the arithmetic average of payments made to Executive pursuant to the Company's

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Executive Bonus Compensation Program with respect to the three (3) fiscal years immediately preceding the fiscal year in which the Date of Termination occurs. In addition, to the extent not otherwise required under the Company's Stock Option Plan or any award agreement with Executive, any unvested stock option awards theretofore awarded to Executive shall vest and become immediately exercisable in full. In the event this Agreement is terminated (or not renewed) for any reason other than (i) by the Company without Cause, or (ii) by Executive for Good Reason, and such termination (or nonrenewal) occurs following a Change of Control, Executive shall not be entitled to the continuation of any compensation, bonuses or benefits provided hereunder, or any other payments following the Date of Termination, other than Base Salary earned through the Date of Termination.

(c) At Executive's option to be exercised by written notice to the Company, the severance benefits payable under this Section 4.5 shall be paid in accordance with the Company's normal payroll procedures over the twelve (12) or twenty-four (24) month period, as the case may be, corresponding to the amount of the payments instead of in a lump sum.

(d) Anything to the contrary contained herein notwithstanding, as a condition to Executive receiving severance benefits to be paid pursuant to this Section 4.5, Executive shall execute and deliver to the Company a general release in form and substance reasonably satisfactory to the Company releasing the Company and its officers, directors, employees and agents from all liabilities, claims and obligations of any nature whatsoever, excepting only the Company's obligations under this Agreement, under any Stock Option Award Agreements, and under any other employee benefit plans or programs in which Executive participates under Section 3.2 hereof, subject to all terms and conditions of such plans or programs and this Agreement.

(e) Anything to the contrary contained herein notwithstanding, in the event that any payment or benefit received or to be received by Executive in connection with a Change in Control of the Company or termination of Executive's employment (whether payable pursuant to the terms of this Agreement or any other plan, contract, agreement or arrangement with the Company, with any person whose actions result in a Change in Control of the Company or with any person constituting a member of an "affiliated group" as defined in Section 280G(d) (5) of the Internal Revenue Code of 1986, as amended (the "Code"), with the Company or with any person whose actions result in a Change in Control of the Company (collectively, the "Total Payments")) would not be deductible (in whole or in part) by the Company or such other person making such payment or providing such benefit solely as a result of Section 280G of the Code, the amount payable to Executive pursuant to this Section 4.5 shall be reduced until no portion of the Total Payments is not deductible solely as a result of Section 280G of the Code or such amount payable to Executive pursuant to Section 4.5 is reduced to zero. For purposes of this limitation, (a) no portion of the Total Payments the receipt or enjoyment of which Executive shall have effectively waived in writing prior to the date of payment of the amount pursuant to Section 4.5 shall be taken into account; (b) no portion of the Total Payments shall be taken into account which in the opinion of tax counsel selected by the Company and reasonably acceptable to Executive does not constitute a "parachute payment" within the meaning of Section 280G(b) (2) of the Code; (c) the payment pursuant to Section 4.5 shall be reduced only to the extent necessary so that the Total Payments (other than those referred to in the immediately preceding clause (b)) in their entirety constitute reasonable compensation within the meaning of Section 280G(b) (4) (B) of the Code, in the opinion of the tax counsel referred to in the immediately preceding clause (b); and (d) the value of any other non-cash

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benefit or of any deferred cash payment included in the Total Payments shall be determined by the Company's independent auditors in accordance with the principles of Sections 280G(d)(3) and (4) of the Code.

### 5. Employment Covenants

5.1 Trade Secrets and Confidential Information. Executive agrees that she shall, during the course of her employment and thereafter, hold inviolate and keep secret all documents, materials, knowledge or other confidential business or technical information of any nature whatsoever disclosed to or developed by her or to which she had access as a result of her employment (hereinafter referred to as "Confidential Information"). Such Confidential Information shall include technical and business information, including, but not limited to, inventions, research and development, engineering, products, designs, manufacture, methods, systems, improvements, trade secrets, formulas, processes, marketing, merchandising, selling, licensing, servicing, customer lists, records or financial information, manuals or Company strategy concerning its business, strategy or policies. Executive agrees that all Confidential Information shall remain the sole and absolute property of the Company. During the course of her employment, Executive shall not use, disclose, disseminate, publish, reproduce or otherwise make available such Confidential Information to any person, firm, corporation or other entity, except for the purpose of conducting business on behalf of the Company. Following the Term, Executive shall not use, disclose, disseminate, publish, reproduce or otherwise make available such Confidential Information to any person, firm, corporation or other entity. Upon termination of her employment with the Company, Executive will leave with or deliver to the Company all records and any compositions, articles, devices, equipment and other items which disclose or embody Confidential Information including all copies or specimens thereof, whether prepared by her or by others. The foregoing restrictions on disclosure of Confidential Information shall apply so long as the information has not properly come into the public domain through no action of Executive.

5.2 Transfer of Inventions. Executive, for himself and her heirs and representatives, will promptly communicate and disclose to the Company, and upon request will, without additional compensation, execute all papers reasonably necessary to assign to the Company or the Company's nominees, free of encumbrance or restrictions, all inventions, discoveries, improvements, whether patentable or not, conceived or originated by Executive solely or jointly with others, at the Company's expense or at the Company's facilities, or at the Company's request, or in the course of her employment, or based on knowledge or information obtained during the Term. All such assignments shall include the patent rights in this and all foreign countries. Notwithstanding the foregoing, this Section 5.2 shall not apply to any invention for which no equipment, supplies, facilities or trade secret information of the Company was used and which was developed entirely on Executive's own time and (a) that does not relate (1) directly to the business of the Company or (2) to the Company's actual or demonstrably anticipated research or development, or (b) that does not result from any work performed by Executive for the Company.

5.3 Exclusivity of Employment. During the Term, Executive shall not directly or indirectly engage in any activity competitive with or adverse to the Company's business or welfare or render a material level of services of a business, professional or commercial nature to any other person or firm, whether for compensation or otherwise.

5.4 Covenant Not to Compete. Executive agrees to be bound and abide

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by the following covenant not to compete:

(a) Term and Scope. During her employment with the Company and for a period of two (2) years after the Term, Executive will not render to any Conflicting Organization (as hereinafter defined), services, directly or indirectly, anywhere in the world in connection with any Conflicting Product, except that Executive may accept employment with a large Conflicting Organization whose business is diversified (and which has separate and distinct divisions) if Executive first certifies to the Board of Directors in writing that she has provided a copy of Section 5 of this Agreement to such prospective employer, that such prospective employer is a separate and distinct division of the Conflicting Organization and that Executive will not render services directly or indirectly in respect of any Conflicting Product (as hereinafter defined). Such two-year time period shall be tolled during any period that Executive is engaged in activity in violation of this covenant.

(b) Judicial Action. Executive and the Company agree that, if the period of time or the scope of the restrictive covenant not to compete contained in this Section 5.4 shall be adjudged unreasonable in any court proceeding, then the period of time and/or scope shall be reduced accordingly, so that this covenant may be enforced in such scope and during such period of time as is judged by the court to be reasonable. In the event of a breach or violation of this Section 5.4 by Executive, the parties agree that in addition to all other remedies, the Company shall be entitled to equitable relief for specific performance, and Executive hereby agrees and acknowledges that the Company has no adequate remedy at law for the breach of the covenants contained herein.

(c) Definitions. For purposes of this Agreement, the following  
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terms shall have the following meanings:

"Conflicting Product" means any product, method or process, system or service of any person or organization other than the Company, in existence or under development at the time Executive's employment with the Company terminates, that is the same as or similar to or competes with a product, method or process, system or service of or provided by the Company or any of its affiliates or about which Executive acquires Confidential Information.

"Conflicting Organization" means any person or organization which is engaged in or about to become engaged in, research on or development, production, marketing, licensing, selling or servicing of a Conflicting Product.

5.5 Disclosure to Prospective Employers. Executive will disclose to any prospective employer, prior to accepting employment, the existence of Section 5 of this Agreement. The obligation imposed by this Section 5.5 shall terminate two (2) years after termination of Executive's employment with the Company; provided, however, the running of such two-year period shall be tolled to the extent the covenant not to compete contained in Section 5.4(a) hereof is tolled.

5.6 Non-Solicitation. For one (1) year after termination of employment with the Company for any reason, the Executive shall not directly or indirectly solicit or hire, or assist any other person in soliciting or hiring, any employee of the Company (as of the date of termination) or any person who, as of the date of termination, was in the process of being recruited by the Company or

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induce any such employee to terminate his or her employment with the Company.

### 6. Miscellaneous

6.1 Notices. Any notice required or permitted to be delivered hereunder shall be in writing and shall be deemed to be delivered on the earlier of (i) the date received, or (ii) the date of delivery, refusal or non-delivery indicated on the return receipt, if deposited in a United States Postal Service depository, postage prepaid, sent registered or certified mail, return receipt requested, addressed to the party to receive the same at the address of such party set forth below, or at such other address as may be designated in a notice delivered or mailed as herein provided.

To Company: Curative Health Services, Inc.  
150 Motor Parkway, 4th Flr.  
Hauppauge, NY 11788

Executive: Jule Cahill Crider  
4109 Glenrose Street  
Kensington, MD 20895

6.2 Headings. The headings of the articles and sections of this Agreement are inserted for convenience only and shall not be deemed a part of or affect the construction or interpretation of any provision hereof.

6.3 Modifications; Waiver. No modification of any provision of this Agreement or waiver of any right or remedy herein provided shall be effective for any purpose unless specifically set forth in a writing signed by the party to be bound thereby. No waiver of any right or remedy in respect of any occurrence or event on one occasion shall be deemed a waiver of such right or remedy in respect of such occurrence or event on any other occasion.

6.4 Entire Agreement. This Agreement contains the entire agreement of the parties with respect to the subject matter hereof and supersedes all other agreements, oral or written, heretofore made with respect thereto, including, without limitation, the Original Agreement.

6.5 Severability. Any provision of this Agreement prohibited by or unlawful or unenforceable under any applicable law of any jurisdiction shall as to such jurisdiction be ineffective without affecting any other provision hereof. To the full extent, however, that the provisions of such applicable law may be waived, they are hereby waived, to the end that this Employment Agreement be deemed to be a valid and binding agreement enforceable in accordance with its terms.

6.6 Controlling Law. This Agreement has been entered into by the  
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parties in the State of New York and shall be continued and enforced in accordance with the laws of that State.

6.7 Assignments. The Company shall have the right to assign this Agreement and to delegate all rights, duties and obligations hereunder to any entity that controls the Company, that the Company controls or that may be the result of the



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merger, consolidation, acquisition or reorganization of the Company and another entity. Executive agrees that this Agreement is personal to her and her rights and interest hereunder may not be assigned, nor may her obligations and duties hereunder be delegated (except as to delegation in the normal course of operation of the Company), and any attempted assignment or delegation in violation of this provision shall be void.

6.8 Attorney Fees. In the event of litigation between the parties, to enforce their respective rights under this Agreement, the prevailing party shall be entitled to receive from the non-prevailing party reimbursement of the prevailing party's reasonable attorney's fees and costs at all levels of trial and appeal.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the Effective Date.

CURATIVE HEALTH SERVICES, INC.

By:

Its: President

Executive

Exhibit 21

### SUBSIDIARIES OF THE REGISTRANT

The following is a list of all of the subsidiaries of the registrant:

1. CHS Services, Inc., organized under the laws of Delaware.

Exhibit 23

### CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-65751) pertaining to the Curative Health Services, Inc. and subsidiaries 1991 Stock Option Plan, as amended, in the Registration Statement (Form S-8 No. 333-65753) pertaining to Curative Health Services, Inc. Non-Employee Director Stock Option Plan, as amended, in the Registration Statement (Form S-8 No. 33-19370) pertaining to the Curative Health Services, Inc. and subsidiaries Director Share Purchase Program and in the Registration Statement (Form S-8 No. 33-85188) pertaining to the Curative Health Services, Inc. and subsidiaries Employee 401(k) Savings Plan of our report dated March

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20, 2001, with respect to the consolidated financial statements and schedule of Curative Health Services, Inc. and subsidiaries included in the Annual Report (Form 10-K) for the year ended December 31, 2000.

/s/ Ernst & Young LLP

Melville, New York  
March 30, 2001