

OPTION CARE INC/DE
Form S-3/A
February 08, 2005

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As filed with the Securities and Exchange Commission on February 8, 2005

Registration No. 333-122258

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 1

FORM S-3

REGISTRATION STATEMENT

Under

THE SECURITIES ACT OF 1933

OPTION CARE, INC.

Delaware

(State or other jurisdiction
of incorporation or organization)

39-3791193

(I.R.S. Employer Identification No.)

**485 Half Day Road, Suite 300
Buffalo Grove, Illinois 60089
(847) 465-2100**

**Rajat Rai
Chief Executive Officer
485 Half Day Road, Suite 300
Buffalo Grove, Illinois 60089
(847) 465-2100**

(Name, address, including zip code, and
telephone number, including area code, of agent for service)

**with a copy to:
Timothy R.M. Bryant, Esq.
McDermott Will & Emery LLP
227 West Monroe Street
Chicago, Illinois 60606
(312) 372-2000**

Approximate date of commencement of proposed sale to the public: From time to time after this registration statement becomes effective.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, please check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

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If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.

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The information in this prospectus is not complete and may be changed. The selling securityholders may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion, dated February 8, 2005

PROSPECTUS

2.25% Convertible Senior Notes due 2024 and the Common Stock Issuable Upon Conversion of the Notes

We issued \$75,000,000 aggregate principal amount of our 2.25% convertible senior notes due 2024 pursuant to a private placement on October 28, 2004 and an additional \$11,250,000 aggregate principal amount of the notes on November 10, 2004 pursuant to the exercise by the initial purchasers of an option granted to them. This prospectus will be used by the selling securityholders to offer for resale the notes and the common stock issuable upon conversion of the notes. We will not receive any proceeds from these resales.

We will pay 2.25% interest per annum on the principal amount of the notes, payable semi-annually in arrears on May 1 and November 1 of each year, beginning on May 1, 2005. Interest will accrue on the notes from and including November 2, 2004 or from and including the last date in respect of which interest has been paid or provided for, as the case may be, to, but excluding, the next interest payment date or maturity date, as the case may be. The notes will mature on November 1, 2024.

The notes are convertible into cash and, if applicable, shares of our common stock based on an initial conversion rate, subject to adjustment, of 55.5278 shares per \$1,000 principal amount of notes (which represents an initial conversion price of approximately \$18.01 per share), in certain circumstances.

Holders may convert their notes into cash and, if applicable, shares of our common stock prior to the stated maturity only under the following circumstances: (1) during any calendar quarter after the calendar quarter ending December 31, 2004, if the closing sale price of our common stock for each of 20 or more consecutive trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter exceeds 120% of the conversion price in effect on the last trading day of the immediately preceding calendar quarter; (2) during the five business day period after any five consecutive trading day period (the "note measurement period") in which the average trading price per \$1,000 principal amount of notes was equal to or less than 97% of the average conversion value of the notes during the note measurement period; (3) upon the occurrence of specified corporate transactions; or (4) if we have called the notes for redemption.

Upon conversion, holders of notes will receive cash and, if applicable, shares of our common stock. The aggregate value (the "conversion value") of the cash and, if applicable, shares of common stock per \$1,000 principal amount of notes will be equal to the product of:

the conversion rate then in effect; and

the average of the daily volume-weighted average price per share of our common stock for each of the 10 consecutive trading days beginning on the second trading day immediately following the day the notes are tendered for conversion (the "10-day weighted average price").

Except as described in this prospectus, we will deliver the conversion value of the notes surrendered for conversion to converting holders as follows:

a cash amount (the "principal return") equal to the lesser of (1) the aggregate conversion value of the notes to be converted and (2) the aggregate principal amount of the notes to be converted;

if the aggregate conversion value of the notes to be converted is greater than the principal return, an amount in whole shares (the "net shares"), determined as set forth in this prospectus, equal to the aggregate conversion value less the principal return (the "net share amount"); and

a cash amount in lieu of any fractional shares of common stock.

If notes are surrendered for conversion in connection with certain fundamental changes that occur before November 1, 2009, holders will in certain circumstances also receive the make-whole premium described in this prospectus in addition to the cash and shares to which holders are otherwise entitled to receive upon conversion.

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On or after November 1, 2009, we may from time to time at our option redeem the notes, in whole or in part, for cash, at a redemption price equal to 100% of the principal amount of the notes we redeem, plus any accrued and unpaid interest to, but excluding, the redemption date. We will make at least 10 semi-annual interest payments on the notes before we may redeem them.

On each of November 1, 2009, November 1, 2014 and November 1, 2019, holders may require us to purchase all or a portion of their notes at a purchase price in cash equal to 100% of the principal amount of the notes to be purchased, plus any accrued and unpaid interest to, but excluding, the purchase date.

Holders may require us to repurchase all or a portion of their notes upon a fundamental change, as described in this prospectus, at a repurchase price in cash equal to 100% of the principal amount of the notes to be repurchased, plus any accrued and unpaid interest to, but excluding, the fundamental change repurchase date. If certain fundamental changes occur before November 1, 2009, we will pay, in addition to the fundamental change repurchase price described above, the make-whole premium described in this prospectus to holders that elect to have us repurchase their notes in connection with the fundamental change.

The notes are our senior unsecured obligations and will rank equally with all of our existing and future senior unsecured indebtedness. The notes are effectively subordinated to all of our existing and future secured indebtedness and all existing and future liabilities of our subsidiaries, including trade payables.

Our common stock is listed on the Nasdaq National Market under the symbol "OPTN." On January 21, 2005, the last reported sale price of our common stock was \$17.25 per share.

Investing in these securities involves significant risks. See "Risk factors" beginning on page 8 of this prospectus.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this prospectus is _____, 2005.

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All trademarks, service marks and trade names in this prospectus are the property of their respective owners.

IMPORTANT NOTICE TO READERS

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission, or SEC, using a "shelf" registration process. Under this shelf registration process, the selling securityholders may, from time to time, offer notes or shares of our common stock issued upon conversion of the notes that they own. Each time the selling securityholders offer notes or common stock under this prospectus, they will provide a copy of this prospectus and, if applicable, a copy of a prospectus supplement. You should read both this prospectus and, if applicable, any prospectus supplements together with the information incorporated by reference in this prospectus and, if applicable, any supplement hereto. See "Where you can find additional information" and "Incorporation of certain documents by reference" for more information.

We have not authorized anyone to provide you with information other than the information contained herein or incorporated by reference as set forth under "Incorporation of certain documents by reference". Neither the notes nor any shares of common stock issuable upon conversion of the notes are being offered in any jurisdiction where the offer or sale is not permitted. The information contained in this prospectus speaks only as of the date of this prospectus and the information in the documents incorporated or deemed to be incorporated by reference in this prospectus speaks only as of the respective dates those documents were filed with the SEC.

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus and the documents incorporated into it by reference. Because this is a summary, it does not contain all of the information that you should consider before investing in our securities. You should read the entire prospectus and the documents incorporated by reference carefully, including the section entitled "Risk factors."

Unless we indicate otherwise in this prospectus or the context otherwise requires, "Option Care," "the company" and "our company" "we," "us" and "our" refer to Option Care, Inc. and its subsidiaries.

COMPANY OVERVIEW

Option Care is a leading integrated provider of specialty pharmacy services and home infusion pharmacy services to patients with acute or chronic conditions that can be treated at home, at one of its local ambulatory infusion suites or in a physician's office. We provide these services to patients on behalf of managed care organizations, government healthcare programs and pharmaceutical manufacturers through two central high volume distribution facilities and 39 company-owned locations and 85 franchise locations. Our services include the distribution of infused and injectable medications, patient care coordination, compliance management and reimbursement support. For the year ended December 31, 2003 and for the nine months ended September 30, 2004, we generated \$355.4 million and \$301.8 million in net revenues, respectively, and net income of \$8.7 million and \$13.6 million, respectively.

Option Care is a leading provider to managed care organizations and other third party payors, patients, physicians and pharmaceutical manufacturers with a cost-effective solution for both home infusion pharmacy services and specialty pharmacy services nationwide. Our combination of national and local distribution capabilities, sales and marketing resources, clinical staff and information systems support our customers as follows:

Payors We provide payors with a comprehensive approach to meeting their pharmacy services needs. Our home infusion pharmacy services offer a lower cost alternative to providing these therapies in a hospital setting. We offer the flexibility of providing home infusion pharmacy services at the patient's home or at one of our local ambulatory infusion centers. Our specialty pharmacy services offer payors a cost effective solution for the distribution of specialty pharmaceuticals directly to patients for self-administration. We also provide the direct distribution of biotech pharmaceuticals to physicians' offices for in-office administration. This provides payors with a cost-effective alternative to direct billing of biotech pharmaceuticals by physicians. We also provide payors with utilization and outcomes data to evaluate therapy effectiveness.

Patients We improve patients' quality of life by allowing them to remain at home while receiving necessary medications, supplies and services. In addition, we help manage patients' conditions through counseling and education regarding their treatment and by providing ongoing monitoring to encourage patient compliance with the prescribed therapy. We also provide services to help patients receive reimbursement benefits.

Physicians We assist physicians with time-intensive patient support by providing care management related to their patients' pharmacy needs and improving compliance with therapy protocols. We eliminate the need for physicians to carry inventories of high cost prescriptions by distributing the medications directly to patients' homes or, if required, to the physicians' offices. Additionally, we either bill the payor directly or assist the patient in the submission of claims to the payor.

Pharmaceutical Manufacturers We provide pharmaceutical manufacturers with a broad distribution channel for their existing pharmaceuticals and their new product launches. Our team of approximately 100 salespeople helps pharmaceutical manufacturers increase the visibility of their products to prescribing physicians. We implement patient monitoring programs that encourage compliance with the prescribed therapy. We also provide valuable clinical information in the form of outcomes and compliance data to support manufacturer research initiatives and reporting requirements.

Our company was founded in 1979 and was a pioneer in the delivery of home infusion services. The industry was formed when the technology emerged allowing for the safe and cost-effective administration of infused medications in a home environment. In addition, Medicare reimbursement changes in 1984 encouraged hospitals to reduce length of stays creating increased discharges to alternate site settings. During the 1980's, the company expanded its services nationally with a franchise model targeting markets with populations of fewer than 300,000. The company completed its initial public offering in 1992 and embarked on transitioning the company from a franchise organization to a healthcare services provider through an acquisition program targeting franchised and non-affiliated operations.

During the 1990's, Option Care focused on building a leadership position in the home infusion industry and began to leverage its local pharmacy capabilities to distribute niche high cost therapies targeting chronic conditions. Due to the robust biotech pharmaceutical product pipeline, Option Care has seen a significant increase in the distribution of these high cost injectible medications. As a result, the company has created a specialized service offering that meets the needs of patients, product manufactures and managed care organizations.

INDUSTRY OVERVIEW

Healthcare related expenditures constitute a large and growing segment of the US economy. According to estimates by the Centers for Medicare & Medicaid Services, national health expenditures reached an estimated \$1.7 trillion in 2003 and are expected to increase to \$3.4 trillion by 2013. In 2002, prescription drug expenditures were \$162 billion, representing 10% of national healthcare expenditures for that year. Prescription drugs remain among the fastest growing categories of healthcare expenditures, increasing by 15.3% in 2002. We believe the recently enacted Medicare Prescription, Drug, Improvement, and Modernization Act of 2003 (MPDIMA) should support the viability of Option Care's specialty pharmacy business. Reimbursement for drugs furnished in connection with durable medical equipment (DME) continues for 2004 and 2005 and does not appear to be adversely impacted. Two important trends that impact our business have emerged in relation to healthcare spending. These trends are positively impacting the growth of many services we provide:

Government programs, private insurance companies, managed care organizations and self-insured employers have implemented various cost-containment measures to limit the growth of healthcare expenditures. These cost-containment measures, together with technological advances, have resulted in a shift in the delivery of many healthcare services away from traditional hospital settings to more cost-effective settings, including patients' homes.

As a result of the proliferation of biotech research and development, biotech companies and pharmaceuticals manufacturers have developed a variety of high cost biotech pharmaceuticals. These biotech pharmaceuticals are most often used in the treatment of chronic conditions such as multiple sclerosis, growth hormone disorders, hemophilia, cancer and immune deficiency disorders. These biotech pharmaceuticals, which in many cases cost over \$10,000 per patient per year, are typically used on a recurring basis for extended periods of time and may require special inventory handling, administration and patient compliance monitoring. Historically, traditional pharmacy distribution channels have not been designed to handle the additional services required by many of these medications.

OUR STRATEGY

We leverage our 25 years of clinical experience, the wide geographical coverage of two central high volume distribution facilities and 39 company-owned locations and 83 franchise locations and our flexible distribution model, which includes the delivery of our services to patients' homes, physicians' offices or our local ambulatory infusion centers, to make us an attractive provider to managed care organizations, insurance companies and other third party payors and referral sources seeking a single source for infusion pharmacy services and specialty pharmacy services. We intend to increase our revenue and profitability by implementing the following strategies:

Home Infusion Growth Strategy We intend to strengthen our position as a leading national provider of infusion therapy by investing in sales execution to new and existing referral sources and through selective acquisitions that expand our geographic coverage into new markets and consolidate providers in existing markets that we serve.

Specialty Pharmacy Growth Strategies We have two strategies relating to specialty pharmacy services:

Manufacturer Strategy We intend to expand our relationships with biotech and other pharmaceutical manufacturers in order to acquire distribution rights to existing and new products by providing centralized distribution, patient compliance programs, patient reimbursement support and clinical data. To support our operations and enhance the services provided under our relationships with pharmaceutical manufacturers, we have opened a national Specialty Care Pharmacy in Ann Arbor, Michigan to provide a central distribution channel for certain biotech pharmaceuticals.

Managed Care Strategy We currently have contracts with most major managed care organizations, which cover approximately 75 million lives. The company is actively implementing contracts for additional services with existing payors as well as new managed care relationships. We intend to expand existing relationships and enter into new relationships with managed care organizations to lower the cost of physician office-based biotech pharmaceuticals and provide utilization and outcomes data. Our specialty pharmacy in Miramar, Florida serves as a central management and distribution point for delivery of biotech pharmaceuticals into physician offices.

Acquisition Strategy The home infusion industry is highly fragmented with the majority of service providers operating primarily in local or regional markets. Currently, there are approximately 3,000 home infusion providers operating in the US 80% are small, "mom and pop" operations while the remaining 20% include a variety of local and national providers that are either independent pharmacies or hospital affiliated. We believe that few competitors possess the scale and resources to consolidate the industry and that Option Care's platform offers a unique acquisition vehicle. Additionally, Option Care has a built-in pipeline of potential existing franchise acquisition opportunities. Option Care's franchise agreements typically provide the company with a right of first refusal for the potential acquisition of an existing franchise.

OUR CORPORATE INFORMATION

We were incorporated in Delaware in July 1991. Our principal executive offices are located at 485 Half Day Road, Suite 300, Buffalo Grove, Illinois 60089, and our telephone number is (847) 465-2100. We maintain an Internet website at <http://www.optioncare.com>. We have not incorporated by reference into this prospectus the information on our website, and you should not consider it to be a part of this prospectus.

THE NOTES

Issuer	Option Care, Inc., a Delaware corporation
Notes	\$86,250,000 aggregate principal amount of 2.25% convertible senior notes due November 1, 2024 and the common stock potentially issuable upon conversion of the notes.
Maturity	The notes will mature on November 1, 2024, unless earlier redeemed, repurchased or converted.
Interest payment dates	We will pay 2.25% interest per annum on the principal amount of the notes, payable semi-annually in arrears on May 1 and November 1 of each year, starting on May 1, 2005, to holders of record at the close of business on the preceding April 15 and October 15, respectively. Interest will accrue on the notes from and including November 2, 2004 or from and including the last date in respect of which interest has been paid or provided for, as the case may be, to, but excluding, the next interest payment date or maturity date, as the case may be.
Ranking	The notes are our senior unsecured obligations and rank equally with all of our existing and future senior unsecured indebtedness. The notes are effectively subordinated to all of Option Care, Inc.'s secured indebtedness and all existing and future liabilities of its subsidiaries, including trade payables. As of September 30, 2004, Option Care, Inc., which is a holding company, had \$25,000 outstanding secured indebtedness and its subsidiaries had \$34.3 million of indebtedness and other obligations that would effectively rank senior to the notes. See "Description of notes Ranking."
Conversion rights	<p>The notes are convertible into cash and, if applicable, shares of our common stock, \$0.01 par value per share, based on an initial conversion rate, subject to adjustment, of 55.5278 shares per \$1,000 principal amount of notes (which represents an initial conversion price of approximately \$18.01 per share), only in the following circumstances and to the following extent:</p> <p style="padding-left: 40px;">during any calendar quarter after the calendar quarter ending December 31, 2004, if the closing sale price of our common stock for each of 20 or more consecutive trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter exceeds 120% of the conversion price in effect on the last trading day of the immediately preceding calendar quarter;</p> <p style="padding-left: 40px;">during the five business day period after any five consecutive trading day period (the "note measurement period") in which the average trading price per \$1,000 principal amount of notes was equal to or less than 97% of the average conversion value of the notes during the note measurement period;</p>

if we make certain distributions on our common stock or engage in certain transactions; or

if we call the notes for redemption.

Upon conversion, holders of notes will receive cash and, if applicable, shares of our common stock. The aggregate value (the "conversion value") of the cash and, if applicable, shares of common stock per \$1,000 principal amount of notes will be equal to the product of:

the conversion rate then in effect; and

the average of the daily volume-weighted average price per share of our common stock for each of the 10 consecutive trading days beginning on the second trading day immediately following the day the notes are tendered for conversion (the "10-day weighted average price").

Except as described below, we will deliver the conversion value of the notes surrendered for conversion to converting holders as follows:

a cash amount (the "principal return") equal to the lesser of:

the aggregate conversion value of the notes to be converted; and

the aggregate principal amount of the notes to be converted;

if the aggregate conversion value of the notes to be converted is greater than the principal return, an amount in whole shares (the "net shares"), determined as set forth in this prospectus, equal to the aggregate conversion value less the principal return (the "net share amount"); and

a cash amount in lieu of any fractional shares of common stock.

However, in order to comply with the continued listing requirements of the Nasdaq National Market, we will not issue more than 4,280,396 shares in respect of the notes. This number represents 19.99% of our outstanding shares of common stock as of October 27, 2004. However, we will make an additional compensatory cash payment to holders that receive less shares upon conversion as a result of this restriction. See "Description of notes Conversion rights Payment upon conversion."

If notes are surrendered for conversion in connection with certain fundamental changes that occur before November 1, 2009, holders will in certain circumstances also receive the make-whole premium described in this prospectus in addition to the cash and shares which holders are otherwise entitled to receive upon conversion.

See "Description of notes Conversion rights."

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Sinking fund	None.
Redemption of notes at our option	On or after November 1, 2009, we may from time to time at our option redeem the notes, in whole or in part, at a redemption price in cash equal to 100% of the principal amount of the notes we redeem, plus any accrued and unpaid interest to, but excluding, the redemption date. See "Description of notes Redemption of notes at our option."
Purchase of notes by us at the option of the holder	On each of November 1, 2009, November 1, 2014 and November 1, 2019, holders may require us to purchase all or a portion of their notes at a purchase price in cash equal to 100% of the principal amount of the notes to be purchased, plus any accrued and unpaid interest to, but excluding, the purchase date. See "Description of notes Purchase of notes by us at the option of the holder."
Right of holder to require us to repurchase notes if a fundamental change occurs	<p>If a "fundamental change", as defined under the indenture under which we issued the notes, occurs, holders may require us to repurchase all or a portion of their notes for cash at a fundamental change repurchase price equal to 100% of the principal amount of the notes to be repurchased, plus any accrued and unpaid interest to, but excluding, the fundamental change repurchase date.</p> <p>If certain fundamental changes occur before November 1, 2009, we will pay, in addition to the fundamental change repurchase price described above, the make-whole premium described in this prospectus to holders that elect to have us repurchase their notes in connection with the fundamental change. See "Description of notes Holders may require us to repurchase their notes upon a fundamental change."</p>
Events of default	If an event of default on the notes has occurred and is continuing, the principal amount of the notes plus any premium and accrued and unpaid interest may become immediately due and payable. These amounts automatically become due and payable upon certain events of default. See "Description of notes Events of default."

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Registration rights

Pursuant to a registration rights agreement that we entered into in connection with the issuance and sale of the notes, we have filed a shelf registration statement under the Securities Act of 1933 relating to the resale of the notes and the common stock issuable upon conversion of the notes. This prospectus constitutes a part of that registration statement. We filed the shelf registration statement solely to permit the resale of the notes and shares of common stock issuable upon conversion of the notes, and investors who purchase notes or shares of common stock from selling securityholders in this offering will not be entitled to any registration rights under the registration rights agreement.

Use of proceeds

We will not receive any proceeds from the sale of the notes or the common stock issuable upon conversion of the notes by the selling securityholders or upon payment of the make-whole premium in connection with a fundamental change.

Listing and trading

The notes trade on the PORTAL Market. Our common stock is listed on the Nasdaq National Market under the symbol "OPTN."

Material US federal tax considerations

For a discussion of material US federal tax considerations relating to the purchase, ownership and disposition of the notes and shares of common stock into which the notes are convertible, see "Material US federal tax considerations."

Risk factors

In analyzing an investment in the notes offered by this prospectus, you should carefully consider, along with other matters included or incorporated by reference in this prospectus, the information set forth under "Risk factors."

For a more complete description of the terms of the notes, see "Description of notes." For a more complete description of our common stock, see "Description of capital stock."

RISK FACTORS

Investing in our securities involves a high degree of risk. Prior to making a decision about investing in our notes and the common stock issuable upon conversion of the notes by the selling securityholders or upon payment of the make-whole premium in connection with a fundamental change, you should carefully consider the risks described below and all other information contained or incorporated by reference in this prospectus. The risks and uncertainties described below and in other filings incorporated by reference are not the only ones facing our company. Additional risks and uncertainties not currently known to us or that we currently consider immaterial may also adversely affect us. If any of the following risks actually occurs, our business, results of operations and financial condition will likely suffer. As a result, the trading price of the notes and our common stock may decline, and you might lose part or all of your investment.

RISKS RELATED TO OUR BUSINESS

Our revenue and profitability will decline if the pharmaceutical industry undergoes certain changes, including limiting or discontinuing research, development, production and marketing of the pharmaceuticals that are compatible with the services we provide.

Our business is highly dependent on the ability of biotech and other pharmaceutical companies to develop, supply and market pharmaceuticals that are compatible with the services we provide. Our revenue and profitability will decline if those companies were to sell pharmaceuticals directly to the public or fail to support existing pharmaceuticals or develop new pharmaceuticals. Our business could also be harmed if the pharmaceutical industry experiences any of the following developments:

supply shortages;

pharmaceutical recalls;

an inability to finance product development because of capital shortages;

a decline in product research, development or marketing;

a reduction in the retail price of pharmaceuticals;

changes in the FDA approval process; or

government or private initiatives that alter how pharmaceutical manufacturers, health care providers or pharmacies promote or sell products and services.

If we lose relationships with managed care organizations and other non-governmental third party payors, we could lose access to a significant number of patients and our revenue and margins could decline.

We are highly dependent on reimbursement from managed care organizations and other non-governmental third party payors. For the nine months ended September 30, 2004 and for the fiscal years ended December 31, 2003, 2002 and 2001, respectively, 81%, 82%, 85% and 86% of our revenue came from managed care organizations and other non-governmental payors, including self-pay patients. Many payors seek to limit the number of providers that supply pharmaceuticals to their enrollees in order to build volume that justifies their discounted pricing. From time to time, payors with whom we have relationships require that we bid against our competitors to keep their business. As a result of such bidding process, we may not be retained, and even if we are retained, the prices at which we are able to retain the business may be reduced. The loss of a payor relationship could significantly reduce the number of patients we serve and have a material adverse effect on our revenue and net income, and a reduction in pricing could reduce our margins and our net income.

The loss of our contract with Blue Cross and Blue Shield of Florida would materially decrease our revenue.

Our principal managed care contract is with Blue Cross and Blue Shield of Florida, Inc. For the nine months ended September 30, 2004 and for the fiscal years ended December 31, 2003, 2002 and 2001, respectively, 16%, 17%, 20% and 21% of our revenue was related to this contract. The contract is terminable by either party on 90 days' notice and, unless terminated, renews annually each September for an additional one-year term. The loss of this contract, or a material reduction in our pricing or pharmaceutical sales under this contract, would materially decrease our revenue and net income.

Recent legislation changing the way Medicare reimburses healthcare providers for covered outpatient drugs, or other future changes to the scope or method of reimbursement from Medicare or Medicaid, could cause our revenue and gross profit margin to decline.

For the nine months ended September 30, 2004 and for the fiscal years ended December 31, 2003, 2002 and 2001, respectively, 19%, 18%, 15% and 14% of our revenue came from reimbursement by federal and state programs such as Medicare and Medicaid. Reimbursement from these and other government programs is subject to statutory and regulatory requirements, administrative rulings, interpretations of policy, implementation of reimbursement procedures, retroactive payment adjustments, governmental funding restrictions and changes to or new legislation, all of which may materially affect the amount and timing of reimbursement payments to us. In particular, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 is changing the way in which Medicare reimburses providers for covered outpatient drugs. In January 2004, payment for most drugs covered by Medicare decreased to 85% of the Average Wholesale Price (AWP) determined as of April 1, 2003. Beginning in 2005, reimbursement for most Medicare Part B drugs not paid on a cost or prospective payment basis will be set at either 106% of the Average Sales Price (ASP) or through a competitive acquisition program to be phased in beginning in 2006. A significant part of the infusion drugs provided by our company are administered in connection with covered durable medical equipment (DME). The payment rate for 2004 and 2005 generally will be 95% of the AWP in effect as of October 1, 2003. While the majority of our revenue is reimbursed by managed care organizations and other non-government payors, these changes to the way Medicare pays for outpatient drugs and biologicals may reduce our revenue and gross margins on services provided to Medicare patients. Further, adoption of ASP as the standard measure for determining reimbursement by state Medicaid programs for the drugs we provide may reduce our revenue and gross margins.

In addition, budgetary concerns in many states have resulted in and may continue to result in, reductions to Medicaid reimbursement as well as delays in payment of outstanding claims. Any reductions to or delays in collecting amounts reimbursable by government programs for our products or services or changes in regulations governing such reimbursements could cause our revenue and profitability to decline.

Our actual financial results might vary from our publicly disclosed results and forecasts.

Our actual financial results might vary from those anticipated by us, and these variations could be material. From time to time we publicly provide earnings guidance. Our forecasts reflect numerous assumptions concerning our expected performance, as well as other factors, which are beyond our control, and which might not turn out to be correct. Although we believe that the assumptions underlying our projections are reasonable, actual results could be materially different. Our financial results are subject to numerous risks and uncertainties, including those identified throughout these "Risk factors" and elsewhere in this prospectus and the documents incorporated by reference.

Our margins could decrease if there are changes in the calculation of Average Wholesale Price (AWP) for the pharmaceuticals we sell, or if managed care organizations and other private payors replace Average Wholesale Price with a different reimbursement system.

Our gross profit is largely controlled by our ability to purchase pharmaceutical products at discounted prices and to negotiate profitable managed care contracts. In many cases, we purchase pharmaceuticals at less than the published AWP for those pharmaceuticals. The AWP has been a standard form of pricing often used in the healthcare industry to determine discount and reimbursement amounts. Accordingly, we have contracted with a number of private payors to sell pharmaceuticals at AWP or at a percentage discount off of the AWP. AWP for most pharmaceuticals is compiled and published by private companies, including First DataBank, Inc. A reduction in AWP for the products we provide to patients could reduce our revenue and narrow our gross profit margins.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 will result in the replacement of AWP with ASP as the standard measure for determining Medicare reimbursement for certain covered outpatient drugs. The adoption of ASP or any other measure for determining reimbursement by some or all of the managed care or other private payors with whom we contract could have a significant impact on our future revenue, results of operations and financial condition.

We are subject to pricing pressures and other risks involved with third party payors.

In recent years, competition for patients, efforts by traditional third party payors to contain or reduce healthcare costs, and the increasing influence of managed care payors, such as health maintenance organizations, have resulted in reduced rates of reimbursement. Changes in reimbursement policies of governmental third party payors, including policies relating to Medicare, Medicaid and other federal and state funded programs, could reduce the amounts reimbursed to our customers for our products and, in turn, the amount these customers would be willing to pay for our products and services, or could directly reduce the amounts payable to us by such payors. Pricing pressures by third party payors may continue, and these trends may adversely affect our business.

Also, continued growth in managed care plans have pressured healthcare providers to find ways of becoming more cost competitive. Managed care organizations have grown substantially in terms of the percentage of the population they cover and in terms of the portion of the healthcare economy they control. Managed care organizations have continued to consolidate to enhance their ability to influence the delivery of healthcare services and to exert pressure to control healthcare costs. A rapid concentration of revenue derived from individual managed care payors could harm our business.

If we do not adequately respond to competitive pressures, demand for our products and services could decrease.

The markets we serve are highly competitive and subject to relatively few barriers to entry. Local, regional and national companies are currently competing in many of the healthcare markets we serve and others may do so in the future. Some of our competitors have greater financial, technical, marketing and managerial resources than we have. Consolidation among our competitors, such as pharmacy benefit managers (PBMs) and regional and national infusion pharmacy or specialty pharmacy providers could result in price competition and other competitive factors that could cause a decline in our revenue and profitability. We expect to continue to encounter competition in the future that could limit our ability to grow revenue and/or maintain acceptable pricing levels.

Some biotech pharmaceutical suppliers in the specialty pharmacy industry have chosen to limit the number of distributors of their products. If we are not selected as a preferred distributor of one or more of our core products, our business and results of operations could be seriously harmed.

We have identified a trend among some of our suppliers toward the retention of a limited number of preferred distributors to market certain of their biopharmaceutical products. If this trend continues,

we cannot be certain that we will be selected and retained as a preferred distributor or can remain a preferred distributor to market these products. Although we believe we can effectively meet our suppliers' requirements, there can be no assurance that we will be able to compete effectively with other specialty pharmacy companies to retain our position as a distributor of each of our core products. Adverse developments with respect to this trend could have a material adverse effect on our business and results of operations.

Any termination of, or adverse change in, our relationships with a single source product manufacturer or the loss of supply of a specific, single source specialty drug could have a material adverse effect on our operations.

We sell biotech pharmaceuticals that are supplied to us by a variety of manufacturers, many of which are the only source of that specific pharmaceutical. In order to have access to these pharmaceuticals, and to be able to participate in the launch of new biotech pharmaceuticals, we must maintain good working relations with the manufacturers. Most of the manufacturers of the pharmaceuticals we sell have the right to cancel their supply contracts with us without cause and after giving only minimal notice. One biotech pharmaceutical, Synagis®, which is manufactured and distributed by MedImmune, Inc., represented 6.2%, 7.1%, 5.6% and 4.2% of our revenue, respectively, for the nine months ended September 30, 2004 and the fiscal years ended December 31, 2003, 2002 and 2001. The loss of our relationship with MedImmune, Inc. or with one or more other biotech pharmaceutical manufacturer would reduce our revenue and profitability.

We have recently experienced, and expect to continue to experience, rapid growth by acquisitions. If we fail to manage our growth effectively, our business could be disrupted and our operating results could suffer.

Our ability to successfully offer our products and services in evolving markets requires an effective planning and management process. In 2003 and 2002, combined, we completed five separate pharmacy business acquisitions. Our growth through acquisitions, combined with the internal growth of our business based on our business plan, may place a strain on our management systems and resources. This growth has resulted in, and will continue to result in an increase in responsibilities for management. To accommodate our growth and compete effectively, we will need to continue to enhance, expand and improve our management and our operational and financial information systems and controls, and to expand, train, manage and motivate our workforce. Our personnel, systems, procedures, or controls may not be adequate to support our operations in the future in light of anticipated growth. In addition, if we focus our financial resources and management attention on the expansion of our operations, our financial results may suffer.

If we are unable to acquire additional local pharmacy facilities on favorable terms, we will be unable to execute our acquisition and development strategy.

Our strategy includes increasing our revenue and earnings through strategic acquisitions of infusion therapy pharmacies and related businesses. Our efforts to execute our acquisition strategy may be affected by our ability to identify suitable candidates and negotiate and close acquisitions. We continue to evaluate potential acquisition opportunities and expect to complete acquisitions in the future. The facilities we purchase may require working capital from us during the initial months of operation, depending on whether or not we acquire receivables as part of the acquisition agreement. We may acquire businesses with significant unknown or contingent liabilities, including liabilities for failure to comply with health care or reimbursement laws and regulations. While we generally obtain contractual rights to indemnification from owners of the businesses we acquire, our ability to realize on any indemnification claims will depend on many factors, including, among other things, the availability of assets of the indemnifying parties. In the future, we may not be successful in acquiring pharmacies or in achieving satisfactory operating results at acquired pharmacies, and we may not be able to acquire infusion therapy facilities that produce returns justifying our related investment. Furthermore, we may

not be able to obtain sufficient capital resources to fund our acquisitions at terms acceptable to us, or at all. Future acquisitions may also result in the dilution of earnings.

An impairment of goodwill on our financial statements could adversely affect our financial position and results of operations.

Our acquisitions have resulted in the recording of a significant amount of goodwill on our financial statements. The goodwill was recorded because the fair value of the net assets acquired was less than the purchase price. We may not realize the full value of this goodwill. As such, we evaluate on at least an annual basis whether events and circumstances indicate that all or some of the carrying value of goodwill is no longer recoverable, in which case we would write off the unrecoverable goodwill as a charge against our earnings.

Since our growth strategy will likely involve the acquisition of other companies, we may record additional goodwill in the future. The possible write-off of this goodwill could negatively impact our future earnings. We will also be required to allocate a portion of the purchase price of any acquisition to the value of any intangible assets that meet the criteria specified in the Statement of Financial Accounting Standards No. 141, "Business Combinations," such as marketing, customer or contract-based intangibles. The amount allocated to these intangible assets could be amortized over a fairly short period, which may negatively affect our earnings or the market price of our common stock.

As of September 30, 2004, we had goodwill of \$65.7 million, or 36.6%, of our total assets and approximately 45.3% of stockholders' equity.

Changes in state and federal government regulation could restrict our ability to conduct our business.

The marketing, sale and purchase of pharmaceuticals and medical supplies and provision of healthcare services generally is extensively regulated by federal and state governments. Other aspects of our business are also subject to government regulation. We believe we are operating our business in compliance with applicable laws and regulations. The applicable regulatory framework is complex, and the laws are very broad in scope. Many of these laws remain open to interpretation and have not been addressed by substantive court decisions. Accordingly, we cannot provide any assurance that our interpretation would prevail or that one or more government agencies will not interpret them differently. Changes in the law or new interpretations of existing law can have a dramatic effect on what we can do, our cost of doing business and the amount of reimbursement we receive from governmental third party payors, such as Medicare and Medicaid. Also, we could be affected by interpretations of what the appropriate charges are under government programs.

Some of the healthcare laws and regulations that apply to our activities include:

The federal "Anti-Kickback Law" prohibits individuals and entities from knowingly and willfully paying, offering, receiving, or soliciting money or anything else of value in order to induce the referral of patients or to induce a person to purchase, lease, order, arrange for, or recommend services or goods covered in whole or in part by Medicare, Medicaid, or other government healthcare programs. Although there are "safe harbors" under the Anti-Kickback Law, some of our business arrangements and the services we provide may not fit within these safe harbors or a safe harbor may not exist that covers the arrangement. The Anti-Kickback Law is an intent based statute and the failure of a business arrangement to satisfy all elements of a safe harbor will not necessarily render the arrangement illegal, but it may subject that arrangement to increased scrutiny by enforcement authorities. Violations of the Anti-Kickback Law can lead to significant penalties, including criminal penalties, civil fines and exclusion from participation in Medicare and Medicaid.

The "Stark Law" prohibits physicians from making referrals to entities with which the physicians or their immediate family members have a "financial relationship"(i.e., an ownership, investment

or compensation relationship) for the furnishing of certain designated health services that are reimbursable under Medicare. The Stark Law exempts certain business relationships which meet its exception requirements. However, unlike the Anti-Kickback Law under which an activity may fall outside a safe harbor and still be lawful, a referral for a designated health service that does not fall within an exception is strictly prohibited by the Stark Law. A violation of the Stark Law is punishable by civil sanctions, including significant fines and exclusion from participation in Medicare and Medicaid.

The Health Insurance Portability and Accountability Act of 1996 (HIPAA) included "Administrative Simplification" provisions that required the Department of Health and Human Services (HHS) to adopt national standards governing electronic health care transactions. At the same time, it was recognized that advances in electronic technology could erode the privacy of health information. Consequently, Congress incorporated provisions into HIPAA that mandated the adoption of federal privacy protections for individually identifiable health information. HHS published a final regulation in the form of the Privacy Rule in December 2000, which became effective April 14, 2001. The Privacy Rule was subsequently modified, and the final version was adopted in August 2002. The Privacy Rule set national standards for the protection of health information for providers and others who transmit health information electronically. By the compliance date of April 14, 2003, covered entities were required to implement standards to protect and guard against misuse of individually identifiable health information. We have implemented the standards set forth in the Privacy Rule and these standards were in place on April 14, 2003. We believe that we are in compliance with the Privacy Rule or any more stringent federal or state laws relating to privacy. Penalties for non-compliance with the Privacy Rule and other HIPAA Administrative Simplification provisions range from civil fines to criminal penalties.

In addition to regulating privacy of individual health information, HIPAA includes several anti-fraud and abuse laws, extends criminal penalties to private health care benefit programs and, in addition to Medicare and Medicaid, to other federal health care programs, and expands the Office of Inspector General's (OIG's) authority to exclude persons and entities from participating in the Medicare and Medicaid programs.

Pharmacies and pharmacists must obtain state licenses to operate and dispense pharmaceuticals. If we are unable to maintain our licenses or if states place burdensome restrictions or limitations on non-resident pharmacies, this could limit or affect our ability to operate in some states which could adversely impact our business and results of operations.

We may become subject to federal and state investigations.

Both federal and state government agencies have heightened and coordinated civil and criminal enforcement efforts as part of numerous ongoing investigations of healthcare companies, as well as their executives and managers. These investigations relate to a wide variety of topics, including referral and billing practices. Further, amendments to the federal False Claims Act have made it easier for private parties to bring whistleblower lawsuits against companies. Some states have adopted similar state whistleblower and false claims provisions.

The Office of the Inspector General of the Department of Health and Human Services and the Department of Justice have, from time to time, established national enforcement initiatives that focus on specific billing practices or other suspected areas of abuse. Some of our activities could become the subject of governmental investigations or inquiries. For example, we have significant Medicare and Medicaid billings. In addition, our executives, some of whom have worked at other healthcare companies that are or may become the subject of federal and state investigations and private litigation, could be included in governmental investigations or named as defendants in private litigation, resulting

in adverse publicity against us. We are not aware of any governmental investigations involving any of our company-owned facilities or our executives. A future investigation of us could result in significant liabilities or penalties to us, as well as adverse publicity, and could seriously undermine our ability to compete for business, negotiate acquisitions, hire new personnel and otherwise conduct our business.

We may be subject to liability for the services we offer and the products we sell.

We and other participants in the healthcare market are, have been and are likely to continue to be subject to lawsuits based upon alleged malpractice, product liability, negligence or similar legal theories, many of which involve large claims and significant defense costs. A successful claim not covered by our professional liability insurance or substantially in excess of our insurance coverage could cause us to pay out a substantial award. In addition, we retain liability on claims up to the amount of our deductibles, which generally are \$250,000 per occurrence. Further, our insurance policy is subject to annual renewal and it may not be possible to obtain liability insurance in the future on acceptable terms, with adequate coverage against potential liabilities, or at all. Also, claims against us, regardless of their merit or eventual outcome, could be a serious distraction to management and could harm our reputation.

Our image and reputation may be harmed by actions taken by our franchisees that are outside of our control.

The majority of our local pharmacy locations are operated by franchisees. Franchisees are independent business owners and are not our subsidiaries or employees. Consequently, the quality of a franchised operation is dependent upon its owner(s) and manager(s). Franchisees may not successfully operate facilities or they may fail to comply with federal and state health care statutes and regulations. If they do not operate their franchises effectively or do not comply with applicable industry regulations, our image and reputation may suffer which could negatively impact our results of operations.

Our gross profit margins may decline if our franchise royalties are reduced.

We rely on royalty payments from our franchisees. For the nine months ended September 30, 2004 and the fiscal years ended December 31, 2003, 2002 and 2001, we derived 2.4%, 2.6%, 2.5% and 4.0%, respectively, of our revenue from franchise royalties and related fees. Our franchisees pay royalties on their gross receipts. Because there is no "cost of goods sold" associated with this revenue, franchise royalties and other fees represent a significant portion of our gross profit. For the nine months ended September 30, 2004 and the fiscal years ended December 31, 2003, 2002 and 2001, royalties and other franchise fees represented 8.4%, 8.6%, 8.1% and 11.9%, respectively, of our gross profit. If our franchisees encounter business or operational difficulties, our revenue from royalties may be adversely affected. Such difficulties may also negatively impact our ability to sell new franchises. In addition, if we are unable to successfully attract new franchisees or if our existing franchise owners do not enter into new franchise agreements with us when their current agreements expire, our franchise revenue, gross profit and overall profitability will decline.

The loss of one or more of our key employees could harm our operations.

Our success depends upon the availability and performance of our key executives, including our Chief Executive Officer, Rajat Rai, and our President and Chief Operating Officer, Richard M. Smith. We do not have "key person" insurance for any of our key executives. The loss of the services of Mr. Rai, Mr. Smith or any of our other key executives could have a material adverse effect upon our business and results of operations.

The current or future shortage in licensed pharmacists, nurses and other clinicians could adversely affect our business.

The healthcare industry is currently experiencing a shortage of licensed pharmacists, nurses and other healthcare professionals. Consequently, hiring and retaining qualified personnel will be difficult due to intense competition for their services and employment. Any failure to hire or retain pharmacists, nurses or other healthcare professionals could impair our ability to expand or maintain our operations.

In the event we are unable to satisfy regulatory requirements relating to internal controls, or if these internal controls over financial reporting are not effective, our business and our stock price could suffer.

Section 404 of Sarbanes-Oxley requires companies to do a comprehensive evaluation of their internal controls. As a result, we are currently performing an evaluation of our internal controls over financial reporting so that our management can certify as to the effectiveness of our internal controls and our auditor can publicly attest to this certification. Our efforts to comply with Section 404 and related regulations regarding our management's required assessment of internal control over financial reporting and our independent auditors' attestation of that assessment has required, and continues to require, the commitment of significant financial and managerial resources. If we fail to timely complete our evaluation, if our management is unable to certify the effectiveness of our internal controls or if our auditors cannot attest to our certification, we could be subject to regulatory scrutiny and a loss of public confidence, which could have an adverse effect on our business and our stock price.

Our certificate of incorporation, our bylaws, and Delaware law contain provisions that could discourage a change in control.

Some provisions of our certificate of incorporation and bylaws, as well as Delaware law, may be deemed to have an anti-takeover effect or may delay or make more difficult an acquisition or change in control not approved by our board of directors, whether by means of a tender offer, open market purchases, a proxy contest or otherwise. These provisions could have the effect of discouraging third parties from making proposals involving an acquisition or change in control, although such a proposal, if made, might be considered desirable by a majority of our stockholders. These provisions may also have the effect of making it more difficult for third parties to cause the replacement of our current management team without the concurrence of our board of directors. See "Description of capital stock."

RISKS RELATED TO THE NOTES AND OUR COMMON STOCK

The notes are unsecured, are subordinated to all of our existing and future secured indebtedness and are effectively subordinated to all liabilities of our subsidiaries.

The notes are unsecured and subordinated in right of payment to all of our existing and future secured indebtedness, to the extent of the assets securing such indebtedness, and are effectively subordinated to all liabilities of our subsidiaries, including trade payables. As of September 30, 2004, Option Care, Inc., which is a holding company, had \$25,000 of secured indebtedness and its subsidiaries had \$34.3 million of indebtedness and other obligations, including trade payables, that would effectively rank senior to the notes. In the event of our insolvency, bankruptcy, liquidation, reorganization, dissolution or winding up, we may not have sufficient assets to pay amounts due on any or all of the notes then outstanding. See "Description of notes Ranking."

Option Care, Inc. is a holding company and substantially all of its operations are conducted through its subsidiaries. None of its subsidiaries has guaranteed or otherwise become obligated with respect to the notes. Its right to receive assets from any of its subsidiaries upon its liquidation or reorganization, and the right of holders of the notes to participate in those assets, is effectively subordinated to claims of that subsidiary's creditors, including trade creditors. Even if Option Care, Inc.

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were a creditor of any of its subsidiaries, its rights as a creditor would be subordinate to any security interest in the assets of that subsidiary and any indebtedness of that subsidiary senior to that held by Option Care, Inc. Furthermore, none of these subsidiaries is under any obligation to make payments to Option Care, Inc., and any such payments would depend on the earnings or financial condition of its subsidiaries and various business considerations. Statutory, contractual or other restrictions may also limit the subsidiaries' ability to pay dividends or make distributions, loans or advances to Option Care, Inc. For these reasons, Option Care, Inc. may not have access to any assets or cash flows of its subsidiaries to make payments on the notes.

The market price of our common stock may experience substantial fluctuations for reasons over which we have little control.

Our stock is traded on the Nasdaq National Market. The stock price and the share trading volume for companies in the healthcare and health services industry is subject to significant volatility. Both company-specific and industry-wide developments, as well as changes to the overall condition of the US economy and stock market, may cause this volatility. The market price of our common stock could continue to fluctuate up or down substantially based on a variety of factors, including the following:

future announcements concerning us, our competitors, the pharmaceutical manufacturers and managed care companies with whom we have relationships or the health care market;

changes in operating results from quarter to quarter;

sales of stock by insiders;

changes in government regulations;

changes in estimates by analysts;

news reports relating to trends in our markets;

the seasonal nature of pharmaceuticals we offer, including Synagis®;

acquisitions and financings in our industry; and

the overall volatility of the stock market.

Furthermore, stock prices for many companies fluctuate widely for reasons that may be unrelated to their operating results. These fluctuations, coupled with changes in our results of operations and general economic, political and market conditions, may adversely affect the market price of our common stock.

Volatility of the market price of our common stock may depress the trading price of the notes.

The market price of our common stock has experienced, and may continue to experience, substantial volatility. Since January 1, 2002, the trading price of our common stock on the Nasdaq National Market has ranged from a low of \$5.47 per share to a high of \$18.84 per share. Because the notes are potentially convertible into shares of our common stock in certain circumstances, volatility in the price of our common stock may depress the trading price of the notes. The risk of volatility and depressed prices of our common stock also applies to holders who receive shares of common stock upon conversion of their notes.

In addition, the stock market in recent years has experienced extreme price and trading volume fluctuations that often have been unrelated or disproportionate to the operating performance of individual companies. These broad market fluctuations may adversely affect the price of our common stock, regardless of our operating performance. In addition, sales of substantial amounts of our common stock in the public market after this offering, or the perception that those sales may occur, could cause the market price of our common stock to decline. Furthermore, stockholders may initiate

securities class action lawsuits if the market price of our stock drops significantly, which may cause us to incur substantial costs and could divert the time and attention of our management.

These factors, among others, could significantly depress the trading price of the notes and the price of our common stock issued upon conversion of the notes.

The net share settlement feature of the notes may have adverse consequences.

The net share settlement feature of the notes, as described under "Description of notes Conversion rights Payment upon conversion," may:

result in holders receiving no shares upon conversion or fewer shares relative to the conversion value of the notes;

reduce our liquidity;

delay holders' receipt of the proceeds upon conversion; and

subject holders to market risk before receiving any shares upon conversion.

The conversion value that you will receive upon conversion of the notes, if convertible, will be equal to the product of the conversion rate then in effect and the average of the daily volume-weighted average price per share of our common stock for each of the 10 consecutive trading days beginning on the second trading day after the day the notes are tendered for conversion. Except as described in this prospectus, we will pay the conversion value in cash, up to the principal amount of the notes being converted, and the residual conversion value, if any, in shares of our common stock valued at this 10-day average price per share. In addition, in order to comply with the continued listing requirements of the Nasdaq National Market, we may not issue more than an aggregate of 4,280,396 shares of common stock upon conversion (19.99% of our outstanding shares of common stock as of October 27, 2004).

We will deliver the cash and, if applicable, shares of common stock issuable upon conversion, excluding the any make-whole premium payable upon conversion, as soon as practicable, but in no event more than three business days, after the last trading day in the 10-consecutive trading days used to calculate the 10-day weighted average price per share, which will be at least 11 trading days after the date holders tender their notes for conversion. In addition, because this 10-day average is based on the trading prices of our common stock after the time a holder surrenders its notes for conversion, any decrease in the price of our common stock after you tender your notes for conversion may significantly decrease the conversion value you receive. Furthermore, because we must settle at least a portion of our conversion obligation in cash, the conversion of notes may significantly reduce our liquidity.

The conversion rate of the notes may not be adjusted for all dilutive events. Accordingly, we may engage in transactions that could dilute the value of the common stock into which your notes may be convertible.

As described under "Description of notes Conversion rights Adjustments to the conversion rate," we will adjust the conversion rate of the notes for certain events, including, among others:

the issuance of stock dividends on our common stock;

the issuance of certain rights or warrants;

certain subdivisions and combinations of our capital stock;

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the distribution of capital stock, indebtedness or assets; certain cash dividends; and

certain tender or exchange offers.

We will not adjust the conversion rate for other events, such as an issuance of common stock for cash or in connection with an acquisition, that may adversely affect the trading price of the notes or our common stock. If we engage in any of these types of transactions, the value of the common stock into which your notes may be convertible may be diluted.

The make-whole premium payable on notes that are converted in connection with, or tendered for repurchase upon, a fundamental change may not adequately compensate you for the lost option time value of your notes as a result of that fundamental change.

If certain fundamental changes occur before November 1, 2009, we will under certain circumstances pay a make-whole premium on the notes that are converted in connection with, or tendered for repurchase upon, that fundamental change. The amount of the make-whole premium depends on the date on which the fundamental change becomes effective and the applicable price described in this prospectus. See "Description of notes Holders may require us to repurchase their notes upon a fundamental change Make-whole premium."

Although the make-whole premium is designed to compensate you for the lost option time value of your notes as a result of the fundamental change, the amount of the make-whole premium is only an approximation of the lost value and may not adequately compensate you for the loss. In addition, if a fundamental change occurs on or after November 1, 2009 or if the applicable price is greater than \$100.00 per share or equal to or less than \$13.34 per share (in each case, subject to adjustment), then we will not pay any make-whole premium. Furthermore, because we generally must pay the make-whole premium in the same form of consideration which was paid for our common stock in the transaction constituting the fundamental change, you may receive consideration that is illiquid or otherwise of lesser value than expected. Also, a holder may not receive the make-whole premium payable upon conversion until the fundamental change repurchase date relating to the applicable fundamental change, or even later, which could be a significant period of time after the date the holder has tendered its notes for conversion.

We may not have the ability to raise the funds to purchase the notes on the purchase dates or upon a fundamental change or to pay the cash payment due upon conversion.

On each of November 1, 2009, November 1, 2014 and November 1, 2019, holders may require us to purchase, for cash, all or a portion of their notes at 100% of their principal amount, plus any accrued and unpaid interest to, but excluding, that date. If a fundamental change occurs, holders of the notes may require us to repurchase, for cash, all or a portion of their notes. In addition, upon conversion of the notes, we will be required to pay the principal return, or, in certain circumstances, other amounts, in cash. We may not have sufficient funds for any required repurchase of the notes. In addition, the terms of any borrowing agreements which we may enter into from time to time may require early repayment of borrowings under circumstances similar to those constituting a fundamental change. These agreements may also make our repurchase of notes, or the cash payment due upon conversion of the notes, an event of default under the agreements. If we fail to repurchase the notes or pay the cash payment due upon conversion when required, we will be in default under the indenture for the notes. See "Description of notes Conversion rights," " Purchase of notes by us at the option of the holder" and " Holders may require us to repurchase their notes upon a fundamental change."

Increased leverage as a result of this offering may harm our financial condition and results of operations.

As adjusted to include the notes, our total consolidated long-term debt as of September 30, 2004 would have been \$86.3 million and would have represented 37.3% of our total capitalization as of that date. In addition, the indenture for the notes will not restrict our ability to incur additional indebtedness.

Our level of indebtedness could have important consequences to you, because:

it could affect our ability to satisfy our obligations under the notes;

a portion of our cash flows from operations will have to be dedicated to interest and principal payments and may not be available for operations, working capital, capital expenditures, expansion, acquisitions or general corporate or other purposes;

it may impair our ability to obtain additional financing in the future;

it may limit our flexibility in planning for, or reacting to, changes in our business and industry; and

it may make us more vulnerable to downturns in our business, our industry or the economy in general.

You may never be able to convert your notes into shares of our common stock, and the value of the notes could be less than the value of the common stock into which your notes could otherwise be converted.

The notes are convertible into cash and, if applicable, shares of our common stock only if specified conditions are met. These conditions may not be met. If these conditions for conversion are not met, you will not be able to convert your notes and you may not be able to receive the value of the common stock into which the notes would otherwise be convertible. In addition, for these and other reasons, the trading price of the notes could be substantially less than the conversion value of the notes.

We have made only limited covenants in the indenture for the notes, and these limited covenants may not protect your investment.

The indenture for the notes does not:

require us to maintain any financial ratios or specific levels of net worth, revenues, income, cash flows or liquidity and, accordingly, does not protect holders of the notes in the event that we experience significant adverse changes in our financial condition or results of operations;

limit our subsidiaries' ability to incur indebtedness which would effectively rank senior to the notes;

limit our ability to incur secured indebtedness that would effectively rank senior to the notes or to incur indebtedness that is equal in right of payment to the notes;

restrict our subsidiaries' ability to issue securities that would be senior to the common stock of our subsidiaries held by us;

restrict our ability to repurchase our securities; restrict our ability to pledge our assets or those of our subsidiaries; or

restrict our ability to make investments or to pay dividends or make other payments in respect of our common stock or other securities ranking junior to the notes.

Furthermore, the indenture for the notes contains only limited protections in the event of a change in control. We could engage in many types of transactions, such as acquisitions, refinancings or recapitalizations, that could substantially affect our capital structure and the value of the notes and our common stock but would not constitute a "fundamental change" that permits holders to require us to repurchase their notes. Our industry is consolidating, and there recently has been significant acquisition and business combination activity involving industry participants. From time to time, we evaluate transactions of this nature. If we were to be acquired or enter into a significant business combination

transaction, your investment in us could be materially adversely affected and the terms of the notes may not provide you with any meaningful protection. You should not consider the covenants in the

indenture or the repurchase feature of the notes as a significant factor in evaluating whether to invest in the notes.

If an active and liquid trading market for the notes does not develop, the market price of the notes may decline and you may be unable to sell your notes.

The notes are a relatively new issue of securities for which there is currently no public market. We do not intend to list the notes on any automated quotation system or any national securities exchange. An active trading market may not develop for the notes. Even if a trading market for the notes develops, the market may not be liquid. If an active trading market does not develop, you may be unable to resell your notes or may only be able to sell them at a substantial discount.

Future issuances of common stock may depress the trading price of our common stock and the notes.

Any issuance of equity securities, including the issuance of shares upon conversion of the notes, could dilute the interests of our existing stockholders, including holders who have received shares upon conversion of their notes, and could substantially decrease the trading price of our common stock and the notes. We may issue equity securities in the future for a number of reasons, including to make acquisitions, finance our operations and business strategy, to adjust our ratio of debt to equity, to satisfy our obligations upon the exercise of outstanding warrants or options or for other reasons.

Our single largest stockholder owns approximately 34.2% of our common stock and may be able to exercise significant influence over the outcome of matters to be voted on by our stockholders.

As of December 31, 2004, Dr. John Kapoor had beneficial ownership both individually and through several partnerships and a trust of approximately 34.2% of the outstanding shares of our common stock. Dr. Kapoor is the Chairman of our board of directors. Accordingly, Dr. Kapoor, alone or together with members of our management team, may be able to exercise significant influence with respect to the election of directors, offers to acquire us and other matters submitted to a vote of our stockholders.

Provisions in the indenture for the notes, our charter documents and Delaware law could discourage an acquisition of us by a third party, even if the acquisition would be favorable to you.

If certain "change in control" transactions (as defined in the indenture) occur, holders of the notes will have the right, at their option, to require us to repurchase all or a portion of their notes. In addition, the indenture for the notes prohibits us from engaging in certain mergers or acquisitions unless, among other things, the surviving entity assumes our obligations under the notes. These and other provisions, including the provisions of our charter documents and Delaware law described under "Description of capital stock," could prevent or deter a third party from acquiring us even where the acquisition could be beneficial to you.

An adverse rating of the notes may cause their trading price to fall.

If a rating agency rates the notes, it may assign a rating that is lower than investors' expectations. Ratings agencies also may lower ratings on the notes in the future. If rating agencies assign a lower-than-expected rating or reduce, or indicate that they may reduce, their ratings in the future, the trading price of the notes could significantly decline.

You may have to pay taxes if we adjust the conversion rate in certain circumstances, even if you do not receive any cash.

We will adjust the conversion rate of the notes for stock splits and combinations, stock dividends, certain cash dividends and certain other events that affect our capital structure. See "Description of notes Conversion rights." If we adjust the conversion rate, in certain circumstances you may be treated as having received a constructive distribution from us, resulting in taxable income to you for US

federal income tax purposes, even though you would not receive any cash in connection with the conversion rate adjustment and even though you might not exercise your conversion right. See "Material US federal tax considerations US Holders Adjustment of conversion rate" and " Non-US Holders Adjustment of conversion rate."

A holder of a note cannot exercise any of the rights of owning our common stock, unless the holder converts the note into shares of our common stock.

A holder of notes is not entitled to any of the rights of an owner of shares of our common stock, including the right to vote or receive dividends and other distributions on our common stock, unless the holder converts its notes and receives common stock. In addition, because of the contingent conversion and net share settlement features of the notes, you may never be able to convert your notes or receive any shares upon conversion.

FORWARD-LOOKING STATEMENTS

Certain information included in this prospectus, including the documents incorporated by reference herein, contains statements that are or will be forward-looking, within the meaning of the Private Securities Litigation Reform Act of 1995, such as statements relating to acquisitions and other business development activities, future capital expenditures and cash needs and the effects of future regulation and competition. Such forward-looking information involves important risks and uncertainties that could significantly affect anticipated results in the future and, accordingly, such results may differ from those expressed in any forward-looking statements made by us, or on our behalf. These risks and uncertainties include, but are not limited to

government and regulatory policies including federal, state and local efforts to reform the delivery of and payment for healthcare services;

sales and renewals of franchises,

technological developments and changes in the competitive environment in which we operate;

our ability to grow through acquisitions and internal development;

general economic conditions (including economic conditions affecting the healthcare industry in particular),

the pricing and availability of equipment and services;

uncertainties affecting our businesses and our franchises and relating to acquisitions (including continuing obligations with respect to completed acquisitions); and

general economic conditions (including economic conditions affecting the healthcare industry in particular).

All forward-looking statements are specifically qualified in their entirety by the foregoing cautionary statement and the "risk factors" that appear elsewhere in this prospectus. We do not undertake to update any forward-looking statement that may be made from time to time by or on our behalf.

USE OF PROCEEDS

We will not receive any proceeds from the sale by the selling securityholders of the notes or shares of common stock issued upon conversion of the notes or upon payment of the make-whole premium in connection with a fundamental change.

PRICE RANGE OF COMMON STOCK

Our common stock is traded publicly on the Nasdaq National Market under the symbol "OPTN." The following table presents quarterly information on the price range of our common stock. This information indicates the high and low sales prices reported by the Nasdaq National Market. These prices do not include retail markups, markdowns or commissions. On May 2, 2002, we effected a 5-for-4 stock split. Prices in the table below for dates before this stock split have been adjusted accordingly.

	<u>High</u>	<u>Low</u>
Fiscal year ended December 31, 2002		
First quarter	\$ 16.72	\$