

OPTION CARE INC/DE  
Form S-3  
January 24, 2005

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As filed with the Securities and Exchange Commission on January 24, 2005

Registration No. 333-[ ]

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## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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### FORM S-3

REGISTRATION STATEMENT  
Under  
THE SECURITIES ACT OF 1933

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### 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**

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**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.

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.

**CALCULATION OF REGISTRATION FEE**

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Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Aggregate Offering Price Per Security	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
2.25% Convertible Senior Notes due 2024	\$86,250,000	100%(1)(2)	\$86,250,000	\$10,152
Common Stock, par value \$0.01 per share	4,280,396(3)	(4)	(4)	(4)

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(i) of the Securities Act of 1933, as amended.

(2) Exclusive of accrued interest, if any.

(3) Represents the maximum aggregate number of shares of common stock which are issuable upon conversion of the 2.25% convertible senior notes due 2024 registered hereby and upon payment of any make-whole premium in connection with a fundamental change. Upon conversion, holders of notes will be entitled to receive, per \$1,000 principal amount of the notes, cash and, if applicable, shares of common stock. The initial conversion rate is 55.5278 shares of common stock per \$1,000 principal amount of the notes, subject to adjustment in certain circumstances. Pursuant to Rule 416 under the Securities Act, such number of shares shall include an indeterminate number of shares of common stock as may be issuable from time to time as a result of the antidilution provisions thereof.

(4) No additional consideration will be received for the Common Stock and, therefore, no registration fee is required pursuant to Rule 457(i).

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

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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 January 24, 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>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>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

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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.



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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.

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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>
<b>Fiscal year ended December 31, 2002</b>		
First quarter	\$ 16.72	\$ 10.23
Second quarter	16.08	11.60
Third quarter	14.28	8.40
Fourth quarter	9.54	5.47
<b>Fiscal year ended December 31, 2003</b>		
First quarter	\$ 9.15	\$ 6.99
Second quarter	12.22	8.26
Third quarter	12.68	9.70
Fourth quarter	12.47	8.59
<b>Fiscal year ended December 31, 2004</b>		
First quarter	\$ 13.89	\$ 10.34
Second quarter	15.83	11.05
Third quarter	18.62	13.30
Fourth quarter	18.84	12.77

As of January 19, 2005, there were approximately 296 holders of record of our common stock.

**DIVIDEND POLICY**

At its meeting on May 11, 2004, our board of directors initiated a quarterly cash dividend policy.

Each quarter, our board of directors will decide whether to declare a dividend. At its meeting on May 11, 2004, our board of directors announced an initial quarterly dividend of \$0.02 per share, which was paid on June 15, 2004 to stockholders of record as of June 1, 2004. Subsequently, at its next quarterly meeting on July 29, 2004, our board of directors once again declared a cash dividend of \$0.02 per share, which was paid on August 31, 2004 to stockholders of record as of August 16, 2004. Additionally, on November 3, 2004, our board of directors declared a cash dividend of \$0.02 per share, which was paid on November 30, 2004 to stockholders of record as of November 15, 2004.

Our board of directors may declare dividends at its discretion; and any determination will be made by our board of directors based upon a consideration of a number of factors.

**CONSOLIDATED RATIO OF EARNINGS TO FIXED CHARGES**

The following table sets forth our unaudited consolidated ratio of earnings to fixed charges for the five years ended December 31, 2003 and for the nine months ended September 30, 2004. For the purpose of calculating the ratio of earnings to fixed charges, "earnings" consists of income from continuing operations plus fixed charges, excluding capitalized interest and minority interest of the pre-tax income of certain subsidiaries, and "fixed charges" consist of interest, whether expensed or capitalized, amortization of debt issuance costs and the estimated portion of rental expense deemed to be equivalent to interest.

<u>Year Ended December 31,</u>					<u>Nine Months Ended</u>
<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>September 30, 2004</u>
5.67x	8.07x	8.44x	18.39x	10.71x	24.14x

## DESCRIPTION OF NOTES

On November 2, 2004 and November 10, 2004, we issued and sold \$86,250,000 of our 2.25% convertible senior notes due 2024 to qualified institutional buyers (as defined under Rule 144A under the Securities Act). The notes were issued under an indenture, dated as of November 2, 2004, between us and LaSalle Bank National Association, as trustee. The following summary of the terms of the notes and the indenture does not purport to be complete and is subject, and qualified in its entirety by reference, to the detailed provisions of the notes and the indenture. We will provide copies of the indenture to you upon request, and they are also available for inspection at the office of the trustee. The indenture, and not this description, defines your legal rights as a holder of the notes.

For purposes of this summary under "Description of notes", the terms "Option Care," "we," "us" and "our" refer only to Option Care, Inc. and not to any of its subsidiaries, unless we specify otherwise. Unless the context requires otherwise, the term "interest" includes "additional interest," and references to dollars mean US dollars. The term "premium" includes the "make-whole premium" we describe under " Holders may require us to repurchase their notes upon a fundamental change Make-whole premium," unless the context requires otherwise.

### GENERAL

The notes:

bear interest at a rate of 2.25% per annum, payable semi-annually in arrears on May 1 and November 1 of each year, beginning on May 1, 2005, to holders of record at the close of business on the preceding April 15 and October 15, respectively, except as described below;

bear additional interest if we fail to comply with the obligations we describe under " Registration rights, additional interest";

will be issued in denominations of integral multiples of \$1,000 principal amount; are our unsecured indebtedness and are equal in right of payment to our senior unsecured indebtedness as described under " Ranking";

are convertible into cash and, if applicable, shares of our common stock based on an initial conversion rate of 55.5278 shares per \$1,000 principal amount of notes (which represents an initial conversion price of approximately \$18.01 per share) under the conditions and subject to such adjustments described under " Conversion rights";

are redeemable, in whole or in part, by us at any time on or after November 1, 2009, at a redemption price in cash equal to 100% of the principal amount of the notes we redeem, plus accrued and unpaid interest to, but excluding, the redemption date, as described under " Redemption of notes at our option";

are subject to purchase by us at the option of the holder on each of November 1, 2009, November 1, 2014 and November 1, 2019, at a purchase price in cash equal to 100% of the principal amount of the notes to be purchased, plus accrued and unpaid interest to, but excluding, the purchase date, as described under " Purchase of notes by us at the option of the holder";

are subject to repurchase by us at the option of the holder upon a fundamental change, as described under " Holders may require us to repurchase their notes upon a fundamental change," at a repurchase price of:

a cash amount equal to 100% of the principal amount of the notes to be repurchased, plus accrued and unpaid interest to, but excluding, the repurchase date; and

in the event of certain fundamental changes that occur before November 1, 2009, a make-whole premium in the amount and form described under " Holders may require us to repurchase their notes upon a fundamental change Make-whole premium"; and





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mature on November 1, 2024, unless previously redeemed, repurchased or purchased by us or converted.

All cash payments on the notes will be made in US dollars.

We will issue the notes in denominations of integral multiples of \$1,000 principal amount, without coupons. We will initially issue the notes as global securities in book-entry form. We will make payments in respect of the notes by wire transfer of immediately available funds to the accounts specified by holders of the notes. If a holder of a note that has been subsequently issued in certificated form does not specify an account, we will mail a check to that holder's registered address.

You may convert notes at the office of the conversion agent, present notes for registration of transfer at the office of the registrar for the notes and present notes for payment at maturity at the office of the paying agent. We have appointed the trustee as the initial conversion agent, registrar and paying agent for the notes.

We will not provide a sinking fund for the notes. The indenture does not contain any financial covenants and will not limit our ability to incur additional indebtedness, including senior or secured indebtedness, pay dividends or repurchase our securities. In addition, the indenture does not provide any protection to holders of notes in the event of a highly leveraged transaction or a change in control, except as, and only to the limited extent, described under " Holders may require us to repurchase their notes upon a fundamental change" and " Consolidation, merger and sale of assets."

If any payment date with respect to the notes falls on a day that is not a business day, we will make the payment on the next business day. The payment made on the next business day will be treated as though it had been made on the original payment date, and no interest will accrue on the payment for the additional period of time.

### INTEREST PAYMENTS

We will pay interest on the notes in cash at a rate of 2.25% per annum, payable semi-annually in arrears on each May 1 and November 1 of each year, beginning on May 1, 2005. Except as described below, we will pay interest that is due on an interest payment date 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. We will pay interest on the notes on the basis of a 360-day year of twelve 30-day months.

If a holder surrenders a note for conversion after the close of business on the record date for the payment of an installment of interest and before the related interest payment date, then, despite the conversion, we will, on the interest payment date, pay in cash the interest due with respect to the note to the person who was the record holder of the note at the close of business on the record date. However, unless we have called the note for redemption, the holder who surrenders the note for conversion must pay in cash to the conversion agent upon surrender of the note an amount equal to the interest payable on such interest payment date on the portion of the note being converted. However, a holder that surrenders a note for conversion need not pay any overdue interest that has accrued on the note.

If we redeem the notes, or if a holder surrenders a note for purchase at the option of the holder or for repurchase upon a fundamental change as described under " Purchase of notes by us at the option of the holder" and " Holders may require us to repurchase their notes upon a fundamental change," we will pay accrued and unpaid interest, if any, to the holder that surrenders the security for redemption, purchase or repurchase, as the case may be. However, if we redeem a note on a redemption date that is an interest payment date, we will pay the accrued and unpaid interest due on that interest payment date instead to the record holder of the note at the close of business on the record date for that interest payment.

For a description of when and to whom we must pay additional interest, if any, see " Registration rights, additional interest."

## CONVERSION RIGHTS

If the conditions for conversion of the notes described below, including those described under " Conditions for conversion" and " Conversion procedures," are satisfied, holders of notes may, subject to prior maturity, redemption or repurchase, convert their notes in integral multiples of \$1,000 principal amount into cash in an amount described below and, if applicable, shares of our common stock, based on an initial conversion rate of 55.5278 shares of our common stock per \$1,000 principal amount of notes, subject to adjustment as described below. This rate results in an initial conversion price of approximately \$18.01 per share. We will not issue fractional shares of common stock upon conversion of the notes and instead will pay a cash adjustment for fractional shares based on the 10-day weighted average price per share of our common stock described below. Except as described below, we will not make any payment or other adjustment on conversion with respect to any accrued interest on the notes, and we will not adjust the conversion rate to account for accrued and unpaid interest.

On conversion, the holders of notes will also receive the rights under any stockholder rights plan (*i.e.*, a poison pill) we may establish in the future, whether or not the rights are separated from our common stock prior to conversion. We currently do not have a stockholder rights plan.

If a holder surrenders a note for conversion after the close of business on the record date for the payment of an installment of interest and before the related interest payment date, then, despite the conversion, we will, on the interest payment date, pay in cash the interest due with respect to the note to the person who was the record holder of the note at the close of business on the record date. However, unless we have called the note for redemption, the holder who surrenders the note for conversion must pay in cash to the conversion agent upon surrender of the note an amount equal to the interest payable on such interest payment date on the portion of the note being converted. However, a holder that surrenders a note for conversion need not pay any overdue interest that has accrued on the note.

The conversion right with respect to any notes we have called for redemption will expire at the close of business on the last business day immediately preceding the redemption date, unless we default in the payment of the redemption price. A note for which a holder has delivered a purchase notice or a fundamental change repurchase notice, as described below, requiring us to purchase the note may be surrendered for conversion only if the holder withdraws the notice in accordance with the indenture, unless we default in the payment of the purchase price or fundamental change repurchase price.

Except as provided in the indenture, if we reclassify our common stock or are party to a consolidation, merger or binding share exchange, or if we sell, transfer, lease, convey or otherwise dispose of all or substantially all of our property or assets, then, at the effective time of the transaction, the right to convert a note will be changed into a right to convert it into the kind and amount of shares of stock and other securities and property (including cash) which a holder of such note would have received (the "reference property") if the holder had converted the note and received solely shares of our common stock, at the conversion rate then applicable, upon such conversion, immediately before the transaction (assuming that the holder would not have exercised any rights of election that the holder would have had as a holder of common stock to select a particular type of consideration). However, after at the effective time of the transaction, the principal return payable upon conversion of the notes will continue to be payable in cash and the conversion value will be calculated based on the fair value of the reference property. A change in the conversion right such as this could substantially lessen or eliminate the value of the conversion right. For example, if a third party acquires us in a cash merger, each note would be convertible solely into cash and would no longer be potentially convertible into securities whose value could increase depending on the surviving entity's future financial performance, prospects and other factors.

There is no precise, established definition of the phrase "all or substantially all of our property or assets" under applicable law. Accordingly, there may be uncertainty as to whether the provisions above

would apply to a sale, transfer, lease, conveyance or other disposition of less than all of our property or assets.

In the event of:

a taxable distribution to holders of common stock which results in an adjustment to the conversion rate; or

an increase in the conversion rate at our discretion,

the holders of the notes may, in certain circumstances, be deemed to have received a distribution subject to US federal income tax as a dividend. This generally would occur, for example, if we adjust the conversion rate to compensate holders for cash dividends on our common stock and could also occur if we make other distributions of cash or property to our stockholders. See "Material US federal tax considerations US holders Adjustments of conversion rate" and "Material US federal tax considerations Non-US holders Adjustments of conversion rate."

### **Conversion procedures**

To convert a note, the holder must complete the conversion notice on the back of the note and deliver it, together with the note and any required interest payment, to the office of the conversion agent for the notes, which will initially be the office of the trustee. In addition, the holder must pay any tax or duty payable as a result of any transfer involving the issuance or delivery of the shares of common stock in a name other than that of the registered holder of the note. The note will be deemed to be converted on the date on which the holder has satisfied all of these requirements.

We will deliver, through the conversion agent, the cash and, if applicable, shares of common stock issuable 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 of our common stock described below. However, we will deliver, through the conversion agent, the make-whole premium, if any, due on a note upon conversion in connection with a fundamental change as soon as practicable, but in no event after the later of the applicable fundamental change repurchase date and the date the note is tendered for conversion. See " Holders may require us to repurchase their notes upon a fundamental change Make-whole premium."

For a discussion of certain tax consequences of a holder receiving cash including, if applicable, a make-whole premium and, if applicable, shares of common stock upon surrendering notes for conversion, see "Material US federal tax considerations US holders Conversion of the notes" and "Material US federal tax considerations Non-US holders Conversion of the notes."

### **Payment upon conversion**

Holders that tender their notes for conversion 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 converted will be equal to the product of:

the conversion rate then in effect at the time the notes are tendered for conversion; 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").

Our board of directors will make appropriate adjustments, in its good faith determination, to account for any adjustment to the conversion rate that becomes effective, or any event requiring an adjustment to the conversion rate where the ex date of the event occurs, at any time from, and

including, the date the notes are tendered for conversion to, and including, the date that we deliver the consideration payable upon conversion.

The "volume-weighted average price" per share of our common stock on a trading day is the volume-weighted average price per share of our common stock on the Nasdaq National Market or, if our common stock is not listed on the Nasdaq National Market, on the principal exchange or over-the-counter market on which our common stock is then listed or traded, from 9:30 a.m. to 4:30 p.m., New York City time, on that trading day, as displayed by Bloomberg. If such volume weighted average price is not available, then our board of directors will in good faith determine the amount to be used as the volume-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 below, equal to the aggregate conversion value less the principal return (the "net share amount"); and

a cash amount, based on the 10-day weighted average price per share of our common stock, in lieu of any fractional shares of common stock.

The number of net shares we will deliver upon conversion is equal to the net share amount divided by the 10-day weighted average price per share of our common stock. However, in order to comply with the continued listing requirements of the Nasdaq National Market, we may not issue more than a total of 4,280,396 net shares in respect of the notes, subject to adjustment for stock splits, stock dividends and similar transactions. This number represents 19.99% of our outstanding shares of common stock as of October 27, 2004.

Based on the initial conversion rate, the limit on the total number of net shares issuable upon conversion cannot be reached unless the 10-day weighted average price per share of our common stock is equal to at least \$169.90.

The number of remaining net shares available for issuance, which we refer to as the "available shares," will be reduced as holders convert their notes. If the conversion rate and the 10-day weighted average price per share of our common stock reach levels such that there would be insufficient available shares to satisfy our conversion obligation on all outstanding notes, then you will receive less shares upon conversion. However, in such a case, we will make an additional cash payment to converting holders equal to the value, based on the 10-day weighted average price per share of our common stock, of any shares we do not deliver.

We will determine the conversion value, principal return, net share amount and number of net shares at the end of the 10 consecutive trading day period beginning on the second trading day immediately following the day the notes are tendered for conversion. We may not have the financial resources, and we may not be able to arrange for financing, to pay the principal return for all notes holders have tendered for conversion. Furthermore, payment of the principal return may violate the terms of our existing or future indebtedness. See "Risk factors 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." Our failure to pay the principal return on the notes when converted would result in an event of default with respect to the notes.

**Conversion upon the occurrence of certain fundamental changes**

If:

a "fundamental change," as described under " Holders may require us to repurchase their notes upon a fundamental change," occurs before November 1, 2009; and

that fundamental change is a transaction or series of transactions as a result of which 50% or more of our common stock outstanding immediately before that fundamental change is exchanged for, converted into, acquired for, or constitutes solely the right to receive, shares of stock or other securities or property (including cash), or any combination thereof,

then holders who surrender their notes for conversion during the period that begins on, and includes, the 15th business day before the date we originally announce as the anticipated effective date of the fundamental change and ends on, and includes, the 15th business day after the actual effective date of the fundamental change will also receive the "make-whole premium" described under " Holders may require us to repurchase their notes upon a fundamental change Make-whole premium." In connection with such a fundamental change, we will pay this make-whole premium in addition to the cash and, if applicable, shares to which these holders are otherwise entitled to receive upon conversion.

**Conditions for conversion**

The notes will become convertible only in certain circumstances, which we describe below. If the notes become convertible, we will provide written notice to each holder, and we will publicly announce, through a reputable national newswire service, and publish on our website, that the notes have become convertible, stating:

the event causing the notes to become convertible;

the time during which the notes will be convertible as a result of that event;

whether a make-whole premium, as described under " Holders may require us to repurchase their notes upon a fundamental change Make-whole premium," is payable upon conversion in connection with that event;

if a make-whole premium will be payable, the form of consideration in which we will pay the make-whole premium and the amount of such consideration; and

the procedures holders must follow to convert their notes, including the name and address of the conversion agent.

We will make this public announcement as soon as practicable, but in no event later than the open of business on the first date the notes become convertible as a result of the event.

Holders may surrender their notes for conversion prior to maturity or earlier redemption or repurchase only in the following circumstances:

***Conversion based on price of common stock***

Prior to maturity or earlier redemption or repurchase, holders may surrender their notes for conversion during any calendar quarter after the calendar quarter ending December 31, 2004, if the "closing sale price" (as defined in the indenture) 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. Our board of directors will make appropriate adjustments, in its good faith determination, to account for any adjustment to the

conversion rate that becomes effective, or any event requiring an adjustment to the conversion rate where the ex date of the event occurs, during that 30 consecutive trading day period.

The "closing sale price" of our common stock on any trading day generally means the closing per share sale price (or, if no closing sale price is reported, the average of the bid and ask prices or, if more than one in either case, the average of the average bid and the average ask prices) on such trading day on the US principal national securities exchange on which our common stock is listed or, if our common stock is not listed on a US national securities exchange, as reported by the Nasdaq system or otherwise as provided in the indenture.

***Conversion upon satisfaction of the trading price condition***

Prior to maturity or earlier redemption or repurchase, holders may surrender their notes for conversion 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, as determined following a request by a holder of notes in accordance with the procedures described below, was equal to or less than 97% of the average conversion value of the notes during the note measurement period. We refer to this condition as the "trading price condition."

For purposes of the trading price condition, the "conversion value" per \$1,000 principal amount of notes on a trading day is the product of the closing sale price per share of our common stock and the conversion rate of the notes in effect on that trading day.

Except as described below, the "trading price" of the notes on any day generally means the average secondary market bid quotations obtained by the bid solicitation agent for \$5,000,000 principal amount of notes at approximately 4:00 p.m., New York City time, on such day from three independent nationally recognized securities dealers we select. However, if the bid solicitation agent can reasonably obtain only two such bids, then the average of the two bids will be instead used, and if the bid solicitation agent can reasonably obtain only one such bid, then that one bid will be used. Even still, if on a given day:

the bid solicitation agent cannot reasonably obtain at least one bid for \$5,000,000 principal amount of notes from an independent nationally recognized securities dealer; or

in the reasonable, good faith judgment of our board of directors, the bid quotation or quotations that the bid solicitation agent has obtained are not indicative of the secondary market value of the notes,

then the trading price per \$1,000 principal amount of notes will be deemed to be equal to 97% of the product of the closing sale price of our common stock on that day and the conversion rate then in effect.

The bid solicitation agent will have no obligation to determine the trading price of the notes unless we have requested it to do so, and we will have no obligation to make such request unless a holder provides us with reasonable evidence that the trading price per \$1,000 principal amount of notes would be equal to or less than 97% of the conversion value of the notes. At such time, we will instruct the bid solicitation agent to determine the trading price of the notes for each of the next five trading days and on each following trading day until the trading price condition is no longer satisfied.

***Conversion based on redemption***

If we call a note for redemption, the holder of that note may surrender it for conversion at any time before the close of business on the business day immediately preceding the redemption date.

*Conversion upon the occurrence of certain corporate transactions*

If:

we are party to a consolidation, merger or binding share exchange pursuant to which our common stock would be converted into cash, securities or other property; or

a "fundamental change," as described under " Holders may require us to repurchase their notes upon a fundamental change," occurs,

then a holder may surrender notes for conversion at any time during the period that begins on, and includes, the 15th business day before the date we originally announce as the anticipated effective date of the fundamental change, transaction or event and ends on, and includes, the 15th business day after the actual effective date of the fundamental change, transaction or event.

Holders that convert their notes in connection with certain fundamental changes may in some circumstances also be entitled to receive a make-whole premium. See " Holders may require us to repurchase their notes upon a fundamental change Make-whole premium."

In addition, if we take any action, or become aware of an event, that would require an adjustment to the conversion rate as described in the third, fourth, fifth, sixth or seventh bullet point in " Adjustments to the conversion rate" below, we must mail to holders written notice of the action or event at least 20 days before the record, effective or expiration date, as the case may be, of the transaction. Holders may surrender their notes for conversion beginning on the date we mail the notice (or, if earlier, the date the indenture requires us to mail the notice) until the close of business on the business day immediately preceding the "ex date" (as defined in the indenture) of the transaction or until we announce that the transaction will not take place.

**Adjustments to the conversion rate**

Subject to the terms of the indenture, we will adjust the conversion rate for:

dividends or distributions on our common stock payable in shares of our common stock;

subdivisions, combinations or certain reclassifications of our common stock;

distributions to all or substantially all holders of our common stock of certain rights or warrants entitling them, for a period expiring not more than 60 days immediately following the record date for the distribution, to purchase or subscribe for shares of our common stock, or securities convertible into or exchangeable or exercisable for shares of our common stock, at a price per share that is less than the "current market price" (as defined in the indenture) of our common stock on the record date for the distribution;

dividends or other distributions to all or substantially all holders of our common stock of shares of our capital stock (other than our common stock), evidences of indebtedness or other assets (other than dividends or distributions covered by the bullet points below) or the dividend or distribution to all or substantially all holders of our common stock of certain rights or warrants (other than those covered in the third bullet point above or, as described below, certain rights or warrants distributed pursuant to a stockholder rights plan) to purchase or subscribe for our securities; however, we will not adjust the conversion rate pursuant to this provision for distributions of certain rights or warrants, if we make certain arrangements for holders of notes to receive those rights and warrants upon conversion of the notes;



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cash dividends or other cash distributions to all or substantially all holders of our common stock, other than:

distributions in respect of tender or exchange offers described in the bullet points below; and

regular quarterly dividends, to the extent the aggregate amount of such dividends in any quarterly period does not exceed \$0.02 per share of our common stock (appropriately adjusted, in the good faith determination of our board of directors, for stock dividends on, and subdivisions or combinations of, our common stock and similar events);

distributions of cash or other consideration by us or any of our subsidiaries in respect of a tender offer or exchange offer for our common stock, where such cash and the value of any such other consideration per share of our common stock validly tendered or exchanged exceeds the "current market price" (as defined in the indenture) per share of our common stock on the last date on which tenders or exchanges may be made pursuant to the tender or exchange offer; and

distributions of cash or other consideration by a person other than us or any of our subsidiaries in respect of a tender offer or exchange offer for our common stock, where:

as of the last date on which tenders or exchanges may be made pursuant to the tender or exchange offer, our board of directors does not recommend rejection of the tender or exchange offer;

assuming all shares sought in the tender or exchange offer are validly tendered or exchanged, the offeror, together with its affiliates and certain other persons, would beneficially own at least 10% of the total shares of our common stock outstanding immediately after the expiration time of the tender or exchange offer; and

such cash and the value of any such other consideration per share of common stock validly tendered or exchanged exceeds the "current market price" (as defined in the indenture) per share of our common on the last date on which tenders or exchanges may be made pursuant to the tender or exchange offer.

Subject to the provisions of the indenture, if we distribute cash in accordance with the fifth bullet point above, then we will generally increase the conversion rate so that it equals the rate determined by multiplying the conversion rate in effect immediately before the close of business on the record date for the cash distribution by a fraction whose numerator is the "current market price" (as defined in the indenture) per share of our common stock on the record date and whose denominator is that "current market price" less the "excess payment per share" (as defined in the indenture). "Excess payment per share" generally means:

in the case of a regular quarterly dividend, the excess, if any, of the aggregate amount per share of such dividend in the applicable quarterly period over \$0.02 (appropriately adjusted, in the good faith determination of our board of directors, for stock dividends on, and subdivisions or combinations of, our common stock and similar events); and

in all other cases, the per share amount of the dividend or distribution.

However, we will not adjust the conversion rate for such cash dividends or other cash distributions pursuant to this provision to the extent that the adjustment would reduce the conversion price below \$0.01.

"Current market price" per share of our common stock on a date generally means the average of the closing sale prices of our common stock for the 10 consecutive trading days immediately preceding that date. We will make adjustments to the current market price in accordance with the indenture to account for the occurrence of certain events during the 10 consecutive trading day period.

If we issue rights, options or warrants that are only exercisable upon the occurrence of certain triggering events, then:

we will not adjust the conversion rate until the earliest of these triggering events occurs; and

we will readjust the conversion rate to the extent any of these rights, options or warrants are not exercised before they expire.

The indenture does not require us to adjust the conversion rate for any of the transactions described in the bullet points above if we make provision for holders of notes to participate in the transaction without conversion on a basis and with notice that our board of directors determines in good faith to be fair and appropriate, as provided in the indenture.

We will not adjust the conversion rate unless the adjustment would result in a change of at least 1% in the then effective conversion rate. However,

we will carry forward any adjustment that we would otherwise have to make and take that adjustment into account in any subsequent adjustment; and

at the end of each fiscal year, beginning with the fiscal year ending on December 31, 2004, we will give effect to any adjustments that we have otherwise deferred pursuant to this provision, and those adjustments, if any, will no longer be carried forward and taken into account in any subsequent adjustment.

To the extent permitted by law and the continued listing requirements of the Nasdaq National Market, we may, from time to time, increase the conversion rate by any amount for a period of at least 20 days or any longer period required by law, so long as the increase is irrevocable during that period and our board of directors determines that the increase is in our best interests. We will mail a notice of the increase to holders at least 15 days before the day the increase commences. In addition, we may also increase the conversion rate as we determine to be advisable in order to avoid taxes to recipients of certain distributions.

On conversion, the holders of notes will receive, in addition to the principal return and, if applicable, shares of our common stock and any cash for fractional shares, the rights under any stockholder rights plan (*i.e.*, a poison pill) we may establish in the future, whether or not the rights are separated from our common stock prior to conversion. We currently do not have a stockholder rights plan. A distribution of rights pursuant to such a stockholder rights plan will not trigger a conversion rate adjustment pursuant to the fourth bullet point above so long as we have made proper provision to provide that holders will receive such rights upon conversion in accordance with the terms of the indenture.

#### **REDEMPTION OF NOTES AT OUR OPTION**

Prior to November 1, 2009, we cannot redeem the notes. We may redeem the notes at our option, in whole or in part, at any time on or after November 1, 2009, on a date not less than 30 nor more than 60 days after the day we mail a redemption notice to each holder of notes to be redeemed at the address of the holder appearing in the security register, at a redemption price, payable 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. However, if a redemption date is an interest payment date, the payment of interest becoming due on that date will be payable to the holder of record at the close of business on the relevant record date, and the redemption price will not include such interest payment. We will make at least 10 semi-annual interest payments on the notes before we may redeem the notes at our option.

For a discussion of certain tax consequences to a holder upon a redemption of notes, see "Material US federal tax considerations US holders Sale, redemption or exchange of notes" and

"Material US federal tax considerations Non-US holders Sale or exchange of the notes or common stock."

If the paying agent holds money sufficient to pay the redemption price due on a note on the redemption date in accordance with the terms of the indenture, then, on and after the redemption date, the note will cease to be outstanding and interest on the note will cease to accrue, whether or not the holder delivers the note to the paying agent. Thereafter, all other rights of the holder terminate, other than the right to receive the redemption price upon delivery of the note, together with necessary endorsements.

The conversion right with respect to any notes we have called for redemption will expire at the close of business on the last business day immediately preceding the redemption date, unless we default in the payment of the redemption price.

If we will redeem less than all of the outstanding notes, the trustee will select the notes to be redeemed in integral multiples of \$1,000 principal amount by lot, on a pro rata basis or in accordance with any other method the trustee considers fair and appropriate. However, we may redeem the notes only in integral multiples of \$1,000 principal amount. If a portion of a holder's notes is selected for partial redemption and the holder converts a portion of the notes, the principal amount of the note that is subject to redemption will be reduced by the principal amount that the holder converted.

We will not redeem any notes at our option if there has occurred and is continuing an event of default with respect to the notes, other than a default in the payment of the redemption price with respect to those notes.

#### **PURCHASE OF NOTES BY US AT THE OPTION OF THE HOLDER**

On each of November 1, 2009, November 1, 2014 and November 1, 2019 (each, a "purchase date"), a holder may require us to purchase all or a portion of the holder's outstanding notes, at a 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, subject to certain additional conditions. On each purchase date, we will purchase all notes for which the holder has delivered and not withdrawn a written purchase notice. Holders may submit their written purchase notice to the paying agent at any time from the opening of business on the date that is 20 business days before the purchase date until the close of business on the business day immediately preceding the purchase date.

For a discussion of certain tax consequences to a holder receiving cash upon a purchase of the notes at the holder's option, see "Material US federal tax considerations US holders Sale, redemption or exchange of notes" and "Material US federal tax considerations Non-US holders Sale or exchange of the notes or common stock."

We will give notice on a date that is at least 20 business days before each purchase date to all holders at their addresses shown on the register of the registrar, and to beneficial owners as required by applicable law, stating, among other things:

the amount of the purchase price;

that notes with respect to which the holder has delivered a purchase notice may be converted, if otherwise convertible, only if the holder withdraws the purchase notice in accordance with the terms of the indenture; and

the procedures that holders must follow to require us to purchase their notes, including the name and address of the paying agent.

To require us to purchase its notes, the holder must deliver a purchase notice that states:

the certificate numbers of the holder's notes to be delivered for purchase;

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the principal amount of the notes to be purchased, which must be an integral multiple of \$1,000; and

that the notes are to be purchased by us pursuant to the applicable provisions of the indenture.

A holder that has delivered a purchase notice may withdraw the purchase notice by delivering a written notice of withdrawal to the paying agent before the close of business on the business day before the purchase date. The notice of withdrawal must state:

the name of the holder;

a statement that the holder is withdrawing its election to require us to purchase its notes;

the certificate numbers of the notes being withdrawn;

the principal amount being withdrawn, which must be an integral multiple of \$1,000; and

the principal amount, if any, of the notes that remain subject to the purchase notice, which must be an integral multiple of \$1,000.

If the notes are not in certificated form, the above notices must comply with appropriate DTC procedures.

To receive payment of the purchase price for a note for which the holder has delivered and not withdrawn a purchase notice, the holder must deliver the note, together with necessary endorsements, to the paying agent at any time after delivery of the purchase notice. We will pay the purchase price for the note as soon as practicable but in no event more than three business days after the later of the purchase date and the time of delivery of the note, together with necessary endorsements.

If the paying agent holds on a purchase date money sufficient to pay the purchase price due on a note in accordance with the terms of the indenture, then, on and after that purchase date, the note will cease to be outstanding and interest on the note will cease to accrue, whether or not the holder delivers the note to the paying agent. Thereafter, all other rights of the holder terminate, other than the right to receive the purchase price upon delivery of the note.

We may not have the financial resources, and we may not be able to arrange for financing, to pay the purchase price for all notes holders have elected to have us purchase. Furthermore, certain financial covenants contained in our future indebtedness may limit our ability to pay the purchase price to purchase notes. See "Risk factors 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." Our failure to purchase the notes when required would result in an event of default with respect to the notes.

We will not purchase any notes at the option of holders if there has occurred and is continuing an event of default with respect to the notes, other than a default in the payment of the purchase price with respect to those notes.

In connection with any purchase offer, we will, to the extent applicable:

comply with the provisions of Rule 13e-4 and Regulation 14E and all other applicable laws; and

file a Schedule TO or any other required schedule under the Securities Exchange Act of 1934 or other applicable laws.

**HOLDERS MAY REQUIRE US TO REPURCHASE THEIR NOTES UPON A FUNDAMENTAL CHANGE**

If a "fundamental change" (as defined in the indenture) occurs, each holder will have the right, at its option, subject to the terms and conditions of the indenture, to require us to repurchase for cash all or any portion of the holder's notes in integral multiples of \$1,000 principal amount, at a 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. We must repurchase the notes on a date of our choosing, which we refer to as the "fundamental change repurchase date." However, the fundamental change repurchase date must be no later than 30 trading days, and no earlier than 20 trading days, after the date we have mailed a notice of the fundamental change, as described below. The fundamental change repurchase date also cannot be before the date on which the fundamental change occurs. In certain circumstances as described below, we will also pay, in addition to the principal amount and accrued and unpaid interest, a "make-whole premium" (as defined in the indenture) to holders who require us to repurchase their notes in connection with certain fundamental changes that occur before November 1, 2009.

Within 15 days after the occurrence of a fundamental change, we must mail to all holders of notes at their addresses shown on the register of the registrar, and to beneficial owners as required by applicable law, a notice regarding the fundamental change. The notice must state, among other things:

the events causing the fundamental change;

the date of the fundamental change;

the fundamental change repurchase date;

the last date on which a holder may exercise the repurchase right;

the fundamental change repurchase price and, if applicable, the make-whole premium;

if a make-whole premium will be payable, the form of consideration in which we will pay the make-whole premium;

the names and addresses of the paying agent and the conversion agent;

the procedures that holders must follow to exercise their repurchase right;

the conversion rate and any adjustments to the conversion rate that will result from the fundamental change; and

that notes with respect to which the holder has delivered a fundamental change repurchase notice may be converted, if otherwise convertible, only if the holder withdraws the fundamental change repurchase notice in accordance with the terms of the indenture.

To exercise the repurchase right, a holder must deliver a written notice to the paying agent no later than the close of business on the business day immediately preceding the fundamental change repurchase date. This written notice must state:

the certificate numbers of the notes that the holder will deliver for repurchase;

the principal amount of the notes to be repurchased, which must be an integral multiple of \$1,000; and

that the notes are to be repurchased by us pursuant to the fundamental change provisions of the indenture.

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For a discussion of certain tax consequences to a holder upon the exercise of the repurchase right, including, if applicable, the receipt of a make-whole premium, see "Material US federal tax

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considerations US holders Sale, redemption or exchange of notes" and "Material US federal tax considerations Non-US holders Sale or exchange of the notes or common stock."

A holder may withdraw any fundamental change repurchase notice by delivering to the paying agent a written notice of withdrawal prior to the close of business on the business day immediately preceding the fundamental change repurchase date. The notice of withdrawal must state:

the name of the holder;

a statement that the holder is withdrawing its election to require us to repurchase its notes;

the certificate numbers of the notes being withdrawn;

the principal amount of notes being withdrawn, which must be an integral multiple of \$1,000; and

the principal amount, if any, of the notes that remain subject to the fundamental change repurchase notice, which must be an integral multiple of \$1,000.

If the notes are not in certificated form, the above notices must comply with appropriate DTC procedures.

To receive payment of the fundamental change repurchase price and any applicable make-whole premium for a note for which the holder has delivered and not withdrawn a fundamental change repurchase notice, the holder must deliver the note, together with necessary endorsements, to the paying agent at any time after delivery of the fundamental change repurchase notice. We will pay the fundamental change repurchase price and any applicable make-whole premium for the note as soon as practicable but in no event more than three business days after the later of the fundamental change repurchase date and the time of delivery of the note, together with necessary endorsements.

If the paying agent holds on the fundamental change repurchase date money sufficient to pay the fundamental change repurchase price, and consideration sufficient to pay any applicable make-whole premium, due on a note in accordance with the terms of the indenture, then, on and after the fundamental change repurchase date, the note will cease to be outstanding and interest on such note will cease to accrue, whether or not the holder delivers the note to the paying agent. Thereafter, all other rights of the holder terminate, other than the right to receive the fundamental change repurchase price and any applicable make-whole premium upon delivery of the note.

A "fundamental change" generally will be deemed to occur upon the occurrence of a "change in control" or a "termination of trading."

A "change in control" generally will be deemed to occur at such time as:

any "person" or "group" (as these terms are used for purposes of Sections 13(d) and 14(d) of the Securities Exchange Act of 1934) is or becomes the "beneficial owner" (as that term is used in Rule 13d-3 under the Securities Exchange Act of 1934), directly or indirectly, of 50% or more of the total voting power of all classes of our capital stock entitled to vote generally in the election of directors ("voting stock");

the following persons cease for any reason to constitute a majority of our board of directors:

individuals who on the first issue date of the notes constituted our board of directors; and

any new directors whose election to our board of directors or whose nomination for election by our stockholders was approved by at least a majority of our directors then still in office who were either directors on such first issue date of the notes or whose election or nomination for election was previously so approved;





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we consolidate with, or merge with or into, another person or any person consolidates with, or merges with or into, us, in any such event other than pursuant to a transaction in which the persons that "beneficially owned," directly or indirectly, the shares of our voting stock immediately prior to such transaction, "beneficially own," directly or indirectly, immediately after such transaction, shares of the surviving or continuing corporation's voting stock representing at least a majority of the total voting power of all outstanding classes of voting stock of the surviving or continuing corporation in substantially the same proportion as such ownership immediately prior to the transaction;

the sale, transfer, lease, conveyance or other disposition of all or substantially all of our property or assets to any "person" or "group" (as those terms are used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934), including any group acting for the purpose of acquiring, holding, voting or disposing of securities within the meaning of Rule 13d-5(b)(1) under the Securities Exchange Act of 1934; or

we are liquidated or dissolved or holders of our capital stock approve any plan or proposal for our liquidation or dissolution.

However, a merger or consolidation will not be deemed to constitute a "change in control" if:

all of the consideration (other than cash payments for fractional shares or pursuant to statutory appraisal rights) in such merger or consolidation consists of common stock and any associated rights traded on a US national securities exchange or quoted on the Nasdaq National Market (or which will be so traded or quoted when issued or exchanged in connection with such merger or consolidation); provided, however, that if an entity that is organized and existing under the laws of a jurisdiction outside the United States is a party to such merger or consolidation, then the consideration may consist of American Depositary Shares traded on a US national securities exchange or quoted on the Nasdaq National Market (together with any associated rights) in lieu of common stock so traded or quoted (together with any associated rights) and, provided, further that such merger or consolidation must also constitute a "qualifying foreign merger" (as described under "Consolidation, merger and sale of assets"); and

as a result of such merger or consolidation, the notes become convertible solely into such common stock and associated rights (or, in the case of a qualifying foreign merger, such American Depositary Shares and associated rights).

A "termination of trading" is deemed to occur if our common stock (or other common stock into which the notes are then convertible) is neither listed for trading on a US national securities exchange nor approved for trading on an established automated over-the-counter trading market in the United States. A "termination of trading" will not be deemed to have occurred solely by reason of our having engaged in a qualifying foreign merger, so long as, immediately after such merger, the holders will have the right to convert their notes solely into common stock or American Depositary Shares representing such common stock traded on a US national securities exchange or quoted on the Nasdaq National Market, until such time as the common stock or American Depositary Shares on such common stock into which the notes are solely convertible are no longer so traded or quoted.

We may not have the financial resources, and we may not be able to arrange for financing, to pay the fundamental change repurchase price and any applicable make-whole premium for all notes holders have elected to have us repurchase. Furthermore, certain financial covenants contained in future indebtedness may limit our ability to pay the fundamental change repurchase price to repurchase notes. See "Risk factors 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." Our failure to repurchase the notes when required would result in an event of default with respect to the notes.

We may in the future enter into transactions, including recapitalizations, that would not constitute a fundamental change but that would increase our debt or otherwise adversely affect holders. The indenture for the notes does not restrict our or our subsidiaries' ability to incur indebtedness, including senior or secured indebtedness. Our incurrence of additional indebtedness could adversely affect our ability to service our indebtedness, including the notes.

In addition, the fundamental change repurchase feature of the notes would not necessarily afford holders of the notes protection in the event of highly leveraged or other transactions involving us that may adversely affect holders of the notes. Furthermore, the fundamental change repurchase feature of the notes may in certain circumstances deter or discourage a third party from acquiring us, even if the acquisition may be beneficial to you.

We will not repurchase any notes at the option of holders if there has occurred and is continuing an event of default with respect to the notes, other than a default in the payment of the fundamental change repurchase price with respect to the notes.

In connection with any fundamental change offer, we will, to the extent applicable:

comply with the provisions of Rule 13e-4 and Regulation 14E and all other applicable laws; and

file a Schedule TO or any other required schedule under the Securities Exchange Act of 1934 or other applicable laws.

#### **Make-whole premium**

If:

a fundamental change occurs before November 1, 2009; and

that fundamental change is a transaction or series of transactions as a result of which 50% or more of our common stock outstanding immediately before that fundamental change is exchanged for, converted into, acquired for, or constitutes solely the right to receive, shares of stock or other securities or property (including cash), or any combination thereof,

then we will pay, in addition to the fundamental change repurchase price described above, a make-whole premium to holders who elect to require us to repurchase their notes in connection with such a fundamental change. In addition, if a holder surrenders its notes for conversion at any time during the period that begins on, and includes, the 15th business day before the date we originally announce as the anticipated effective date of the fundamental change and ends on, and includes, the 15th business day after the actual effective date of the fundamental change, then the holder will receive:

the applicable make-whole premium, as described below, plus

the cash and, if applicable, shares of our common stock that are otherwise payable upon conversion, as described under " Conversion rights Payment upon conversion."

See " Conversion rights Conversion upon the occurrence of certain fundamental changes."

#### ***The amount of the make-whole premium***

The make-whole premium is equal to a specified percentage of the principal amount of the notes on which we must pay the make-whole premium. We will determine this percentage by reference to the table below, based on the date when the fundamental change becomes effective (the "effective date") and the "applicable price." If the fundamental change is a transaction or series of transactions as a result of which 50% or more of our common stock outstanding immediately before that fundamental change is exchanged for, converted into, acquired for, or constitutes solely the right to receive, solely



cash, then the "applicable price" will be the cash amount paid per share of our common stock in such transaction or series of transactions. Otherwise, the "applicable price" will be the average of the "closing sale prices" (as defined in the indenture) per share of our common stock for the five consecutive trading days immediately preceding the effective date of the fundamental change. Our board of directors will make appropriate adjustments, in its good faith determination, to account for any adjustment to the conversion rate that becomes effective, or any event requiring an adjustment to the conversion rate where the ex date of the event occurs, at any time during those five consecutive trading days.

The following table sets forth the make-whole premium amounts as a percentage of the principal amount of the related notes. If an event occurs that requires an adjustment to the conversion rate, we will, on the date we must adjust the conversion rate, adjust each applicable price set forth in the first column of the table below by multiplying the applicable price in effect immediately before the adjustment by a fraction:

whose numerator is the conversion rate in effect immediately before the adjustment; and

whose denominator is the adjusted conversion rate.

**Make-whole premium upon certain fundamental changes**  
(% of principal amount)

Applicable price	Effective date					
	November 2, 2004	November 1, 2005	November 1, 2006	November 1, 2007	November 1, 2008	November 1, 2009
\$13.34	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
\$20.00	21.9	20.0	17.9	14.9	10.3	0.0
\$25.00	17.6	15.5	13.0	9.7	5.0	0.0
\$30.00	14.4	12.3	9.8	6.6	2.6	0.0
\$35.00	12.1	10.0	7.5	4.7	1.5	0.0
\$40.00	10.2	8.2	6.0	3.5	0.9	0.0
\$45.00	8.8	6.9	4.9	2.7	0.7	0.0
\$50.00	7.6	5.8	4.0	2.1	0.5	0.0
\$55.00	6.6	5.0	3.3	1.7	0.4	0.0
\$60.00	5.8	4.3	2.8	1.4	0.4	0.0
\$65.00	5.1	3.7	2.4	1.2	0.3	0.0
\$70.00	4.4	3.2	2.0	1.0	0.3	0.0
\$75.00	3.9	2.8	1.7	0.8	0.2	0.0
\$80.00	3.4	2.4	1.5	0.7	0.2	0.0
\$85.00	3.0	2.1	1.2	0.6	0.2	0.0
\$90.00	2.6	1.8	1.0	0.5	0.1	0.0
\$95.00	2.3	1.5	0.8	0.4	0.1	0.0
\$100.00	2.0	1.3	0.7	0.3	0.0	0.0

The exact applicable price and effective date may not be as set forth in the table above, in which case:

if the actual applicable price is between two applicable prices listed in the table above or the actual effective date is between two dates listed in the table above, we will determine the make-whole premium by linear interpolation between the make-whole premium amounts set forth for the two applicable prices, or for the two dates based on a 365-day year, as applicable;

if the actual applicable price is greater than \$100.00 per share (subject to adjustment), we will not pay any make-whole premium; and



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if the actual applicable price is less than or equal to \$13.34 per share (subject to adjustment), we will not pay any make-whole premium.

### *The consideration in which we will pay the make-whole premium*

We will pay the make-whole premium solely in the same form of consideration which our common stock is exchanged for, converted into, acquired for, or constitutes solely the right to receive, as a result of the transaction or transactions constituting the fundamental change, assuming that the holder of those shares would not have exercised any rights of election that the holder would have had as a holder of common stock to select a particular type of consideration. We will calculate the value of the consideration to be delivered in respect of the make-whole premium as follows:

securities that are traded on a US national securities exchange or approved for quotation on the Nasdaq National Market or any similar system of automated dissemination of quotations of securities prices will be valued at the average closing price or last sale price, as applicable, of those securities over the 10 consecutive trading days ending on, and including, the second trading day immediately preceding the fundamental change repurchase date;

other securities, assets or property (other than cash) will be valued at 98% of the average of the fair market value, as of the close of business on the trading day immediately preceding the fundamental change repurchase date, of those securities, assets or property, as determined by two independent, nationally recognized investment banks selected by the trustee; and

100% of any cash.

However, if we are legally or otherwise unable to pay the make-whole premium to a holder in such form of consideration, then we will pay the entire make-whole premium to that holder in cash. In addition, if any of the consideration consists of securities, then our board of directors will make appropriate adjustments, in its good faith determination, to account for certain events that would require an adjustment to the conversion rate if those securities were our common stock.

No later than the open of business on the fundamental change repurchase date, we will publicly announce, through a reputable national newswire service, and publish on our website, the type of the consideration in which we will pay the make-whole premium and the amount of such consideration, including how we have calculated that amount.

### **RANKING**

The notes are our unsecured senior obligations and rank equally with all our other unsecured senior indebtedness. However, the notes are effectively subordinated to any of our existing and future secured indebtedness, to the extent of the assets securing such indebtedness. The notes are also effectively subordinated to all liabilities, including trade payables and lease obligations, if any, of our subsidiaries. Any right by us to receive the assets of any of our subsidiaries upon its liquidation or reorganization, and the consequent right of the holders of the notes to participate in these assets, will be effectively subordinated to the claims of that subsidiary's creditors, except to the extent that we are recognized as a creditor of such subsidiary, in which case our claims would still be subordinated to any security interests in the assets of such subsidiary and any indebtedness of such subsidiary that is senior to that held by us.

In addition, we are a holding company, and substantially all of our operations are conducted through our subsidiaries. However, the notes are exclusively our obligations. Our subsidiaries are separate and distinct legal entities and have no obligation, contingent or otherwise, to pay any amounts due on the notes or to make any funds available for payment on the notes, whether by dividends, loans or other payments. In addition, the payment of dividends and the making of loans and advances to us by our subsidiaries may be subject to statutory, contractual or other restrictions, may depend on the

earnings or financial condition of those subsidiaries and are subject to various business considerations. As a result, we may be unable to gain access to the cash flow or assets of our subsidiaries.

The indenture does not limit the amount of additional indebtedness, including senior or secured indebtedness, which we can create, incur, assume or guarantee, nor does the indenture limit the amount of indebtedness or other liabilities that our subsidiaries can create, incur, assume or guarantee.

#### **CONSOLIDATION, MERGER AND SALE OF ASSETS**

The indenture prohibits us from consolidating with or merging with or into, or selling, transferring, leasing, conveying or otherwise disposing of all or substantially all of our property or assets to, another person, whether in a single transaction or series of related transactions, unless, among other things:

such other person is either:

a corporation organized and existing under the laws of the United States, any state of the United States or the District of Columbia; or

a corporation organized and existing under the laws of a jurisdiction outside the United States, so long as:

such person has common stock or American Depositary Shares representing such common stock traded on a national securities exchange in the United States or quoted on the Nasdaq National Market;

such person has a worldwide total market capitalization of its equity securities (before giving effect to such consolidation, merger, sale, transfer, lease, conveyance or disposition) of at least \$5 billion;

such person has consented to service of process in the United States;

we have made provision for the satisfaction of our obligations to repurchase notes following a fundamental change, if any; and

we have obtained an opinion of tax counsel experienced in such matters to the effect that, under the then-existing US federal tax laws, there would be no material adverse tax consequences to holders of the notes resulting from such transaction (we refer to a transaction that satisfies these conditions as a "qualifying foreign merger");

such person assumes all of our obligations under the notes and the indenture; and

no default or event of default exists immediately after giving effect to the transaction or series of transactions.

When the successor assumes all of our obligations under the indenture, our obligations under the indenture will terminate. However, our obligations under the indenture will not terminate if the transaction is a lease by us of all or substantially all of our property or assets to another person.

Some of the transactions described above could constitute a fundamental change that permits holders to require us to repurchase notes as described in " Holders may require us to repurchase their notes upon a fundamental change."

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There is no precise, established definition of the phrase "all or substantially all of our property or assets" under applicable law. Accordingly, there may be uncertainty as to whether the provisions above would apply to a sale, transfer, lease, conveyance or other disposition of less than all of our property or assets.



**EVENTS OF DEFAULT**

The following are events of default under the indenture for the notes:

our failure to pay the principal of or premium, if any, on any note when due, whether at maturity, upon redemption, on the purchase date with respect to a purchase at the option of the holder, on a fundamental change repurchase date with respect to a fundamental change or otherwise;

our failure to pay an installment of interest or additional interest, if any, on any note when due, if the failure continues for 30 days after the date when due;

our failure to satisfy our conversion obligations upon the exercise of a holder's conversion right;

our failure to timely provide notice as described under " Purchase of notes by us at the option of the holder" or " Holders may require us to repurchase their notes upon a fundamental change";

our failure to comply with any other term, covenant or agreement contained in the notes or the indenture, if the failure is not cured within 30 days after notice to us by the trustee or to the trustee and us by holders of at least 25% in aggregate principal amount of the notes then outstanding, in accordance with the indenture;

a default