FORM S-1/A

General form of registration statement for all companies including face-amount certificate companies [amend]

Filing Date: **1999-03-26**
SEC Accession No. 0001047469-99-011746

FILER

ACCREDO HEALTH INC
CIK:**1068887**| IRS No.: **621642871** | State of Incorp.:**DE** | Fiscal Year End: **1231**
Type: **S-1/A** | Act: **33** | File No.: **333-62679** | Film No.: **99574852**
SIC: **8090** Misc health & allied services, nec

Business Address
1640 CENTURY CENTER
PARKWAY, SUITE 101
MEMPHIS TN 38134
8772227336

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON MARCH 26, 1999

REGISTRATION NO. 333-62679

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 4
TO
FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

ACCREDO HEALTH, INCORPORATED
(Exact name of registrant as specified in its charter)

<TABLE>
<S> <C> <C>

DELAWARE	8099	62-1642871
(STATE OR OTHER JURISDICTION OF INCORPORATION)	(PRIMARY STANDARD INDUSTRIAL CLASSIFICATION CODE NUMBER)	(I.R.S. EMPLOYER IDENTIFICATION NO.)

</TABLE>

1640 CENTURY CENTER PARKWAY, SUITE 101
MEMPHIS, TN 38134
(901) 385-3688
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

DAVID D. STEVENS
CHIEF EXECUTIVE OFFICER
ACCREDO HEALTH, INCORPORATED
1640 CENTURY CENTER PARKWAY, SUITE 101
MEMPHIS, TN 38134
(901) 385-3688
(Name, address, including zip code, and telephone number, including area code, of agent for service)

COPIES TO:

<TABLE>
<S> <C>

STEVEN L. POTTLE, ESQ.	JOHN J. EGAN III, P.C.
ALSTON & BIRD LLP	GOODWIN, PROCTER & HOAR LLP
ONE ATLANTIC CENTER	EXCHANGE PLACE
1201 WEST PEACHTREE STREET	BOSTON, MA 02109-2881
ATLANTA, GA 30309-3424	(617) 570-1000
(404) 881-7000	

</TABLE>

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as practicable on or after the effective date of this Registration Statement.

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, 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 number of the earlier effective registration statement for the same offering. / /

If this Form is a post-effective amendment filed pursuant to Rule 462(d)

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 this prospectus is expected to be made pursuant to Rule 434 under the Securities Act, please check the following box. / /

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 THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

SUBJECT TO COMPLETION, DATED MARCH 26, 1999

INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT BE SOLD NOR MAY OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THESE SECURITIES IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF ANY SUCH STATE.

PROSPECTUS

3,000,000 SHARES

[LOGO]

COMMON STOCK

All of the 3,000,000 shares of Common Stock offered hereby (the "Offering") are being sold by the Company. Prior to this Offering, there has been no public market for the Common Stock of the Company. It is currently estimated that the initial public offering price for the Common Stock will be between $15.00 and $17.00 per share. See "Underwriting" for a discussion of the factors to be considered in determining the initial public offering price. The Company has applied to have the Common Stock quoted on the Nasdaq National Market under the symbol ACDO.

THE SHARES OFFERED HEREBY INVOLVE A HIGH DEGREE OF RISK.
SEE "RISK FACTORS" COMMENCING ON PAGE 6.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

<TABLE>
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	PRICE TO PUBLIC	UNDERWRITING DISCOUNT(1)	PROCEEDS TO COMPANY(2)
<S>	<C>	<C>	<C>
Per Share.....	$	$	$
Total(3).....	$	$	$

</TABLE>

(1) See "Underwriting" for indemnification arrangements with the several Underwriters.

(2) Before deducting expenses payable by the Company estimated at $1,500,000.

(3) The Company has granted the Underwriters a 30-day option to purchase up to 450,000 additional shares of Common Stock solely to cover over-allotments, if any. If all such shares are purchased, the total Price to Public, Underwriting Discount and Proceeds to Company will be $, $ and $, respectively. See "Underwriting."

The shares of Common Stock are offered by the several Underwriters subject

to prior sale, receipt and acceptance by them, and subject to the right of the Underwriters to reject any order in whole or in part and certain other conditions. It is expected that certificates for such shares will be available for delivery on or about , 1999, at the offices of the agent of Hambrecht & Quist LLC in New York, New York.

HAMBRECHT & QUIST

NATIONSBANC MONTGOMERY SECURITIES LLC

SUNTRUST EQUITABLE SECURITIES

, 1999

ADDITIONAL INFORMATION

The Company has filed with the Securities and Exchange Commission (the "Commission") a Registration Statement on Form S-1 under the Securities Act of 1933, as amended (the "Securities Act"), with respect to the Common Stock offered hereby. As permitted by the rules and regulations of the Commission, this Prospectus, which is part of the Registration Statement, omits certain information, exhibits, schedules and undertakings set forth in the Registration Statement. For further information pertaining to the Company and the Common Stock, reference is made to such Registration Statement and the exhibits and schedules thereto. Statements contained in this Prospectus as to the contents or provisions of any documents referred to herein are not necessarily complete, and in each instance where a copy of the document has been filed as an exhibit to the Registration Statement reference is made to the exhibit filed. The Registration Statement may be inspected without charge at the office of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of the Registration Statement may be obtained from the Commission at prescribed rates from the Public Reference Section of the Commission at such address, and at the Commission's regional offices located at 7 World Trade Center, 13th Floor, New York, New York 10048, and at Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60611. In addition, registration statements and certain other filings made with the Commission through its Electronic Data Gathering, Analysis and Retrieval ("EDGAR") system are publicly available through the Commission's site on the Internet's World Wide Web, located at http://www.sec.gov. The Registration Statement, including all exhibits thereto and amendments thereof, has been filed with the Commission through EDGAR.

Accredo Health, Incorporated-SM- is a service mark of the Company and Nova Factor-Registered Trademark- is a trademark of the Company. All other service marks, trademarks and trade names referred to in this Prospectus are the property of their respective owners.

CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN, OR OTHERWISE AFFECT THE PRICE OF THE COMMON STOCK, INCLUDING BY ENTERING STABILIZING BIDS, EFFECTING SYNDICATE COVERING TRANSACTIONS OR IMPOSING PENALTY BIDS. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE "UNDERWRITING."

PROSPECTUS SUMMARY

THE FOLLOWING SUMMARY IS QUALIFIED IN ITS ENTIRETY BY THE MORE DETAILED INFORMATION AND FINANCIAL STATEMENTS AND NOTES THERETO APPEARING ELSEWHERE IN THIS PROSPECTUS. THE COMMON STOCK OFFERED HEREBY INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS."

THE COMPANY

Accredo Health, Incorporated ("Accredo" or the "Company") provides specialized contract pharmacy and related services pursuant to agreements with biotechnology drug manufacturers relating to the treatment of patients with certain costly, chronic diseases. Because of the unique needs of patients suffering from chronic diseases, biotechnology drug manufacturers have recognized the benefits of customized treatment programs to facilitate alternate site drug administration, ensure compliance with treatment regimens, provide reimbursement assistance and capture valuable clinical and patient demographic information. The Company addresses the needs of the manufacturers by providing specialized services that facilitate product launch and patient acceptance, including the collection of timely drug utilization and patient compliance information, patient education and monitoring through the use of written materials and telephonic consultation, reimbursement expertise and overnight drug delivery. The Company believes that its ability to accelerate market penetration and increase revenues for new biotechnology drugs makes it an attractive partner for manufacturers as evidenced by its preferred relationships with Genzyme Corporation ("Genzyme"), Biogen, Inc. ("Biogen"), Genentech, Inc. ("Genentech") and Centocor Inc. ("Centocor"). While these relationships are not exclusive, the Company's preferred status generally involves a designation of the Company as a preferred or recommended provider of the manufacturer's drugs,

direct marketing of the Company's services, customized pricing reflecting the Company's specialized services and flexibility in adjusting prices and other terms in the event of changed market conditions or service levels.

The Company has designed its specialty services to focus primarily on biotechnology drugs that: (i) are used on a recurring basis to treat chronic and potentially life threatening diseases; (ii) are expensive, with annual therapy costs generally ranging from $6,000 to $200,000 per patient; (iii) are administered through injection; and (iv) require temperature control or other specialized handling as part of their distribution process. Currently, the Company provides services that address the needs of patients with the following diseases: Gaucher Disease, a hereditary liver enzyme deficiency; hemophilia, a hereditary bleeding disorder; Multiple Sclerosis, a debilitating disease of the central nervous system; and growth hormone-related disorders. In addition, in August 1998 the Company entered into an agreement with Centocor to provide its services to patients with Crohn's Disease, a chronic inflammatory disease affecting the gastrointestinal tract. These diseases generally require life-long therapy, except for growth hormone-related disorders which typically require treatment for six to ten years.

The Company believes that it is well positioned to take advantage of a large drug development pipeline and the increasing trend toward specialized outsourcing by the biotechnology drug industry. The Company believes that biotechnology products represent the most expensive and rapidly growing part of the new drug pipeline. The Company continuously monitors biotechnology drugs in various phases of clinical development with a particular focus on identifying potential new drugs for the treatment of costly, chronic diseases. Unlike many traditional drugs, these products often possess specific characteristics that make utilization and compliance increasingly difficult. They are often composed of unstable proteins which must be taken by injection and require timely, temperature maintained distribution, dosage monitoring, and controlled inventory management. In addition, expert reimbursement management is crucial as a result of their high cost. When addressing chronic diseases, the challenges facing biotechnology drug manufacturers are often heightened by small patient populations and the need for patients to remain on therapy for extended periods.

In response to the challenges facing biotechnology drug manufacturers, which include often limited resources, the unpredictability of the drug approval process and the onset of significant competition, many manufacturers have sought to outsource various stages of product development in order to realize a return on investment prior to the expiration of any patent or orphan drug status exclusivity. This has included discovery research by outsourcing genomics and screening functions and clinical development through the use of contract research organizations (CROs) and site management organizations (SMOs). This trend has also extended to product commercialization and launch through the outsourcing of manufacturing, sales and marketing, product detailing, pharmacy and distribution services and patient support programs.

The Company's objective is to be the leading provider of specialized contract pharmacy and related services. Key elements of the Company's strategy include: (i) expanding the number of chronic diseases served; (ii) leveraging its expertise to expand its service offerings; (iii) establishing additional relationships with academic medical centers and children's hospitals that treat patients with costly, chronic diseases; (iv) increasing its number of payor contracts; and (v) pursuing acquisitions of similar or complementary businesses.

THE OFFERING

<TABLE>
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Common Stock offered by the Company.....	3,000,000 shares
Common Stock to be outstanding after the Offering.....	8,627,087 shares(1)
Use of proceeds.....	To repay certain indebtedness, to redeem the Company's outstanding Series A Cumulative Preferred Stock and, if available, for working capital and other general corporate purposes, including possible acquisitions.
Proposed Nasdaq National Market symbol.....	ACDO

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(1) Includes 1,100,000 shares of the Company's Non-Voting Common Stock, but excludes 698,214 shares of Common Stock reserved for future stock awards under the Company's stock option and employee stock purchase plans and 899,286 shares of Common Stock issuable upon the exercise of outstanding

options at a weighted average exercise price of $3.79 per share. See "Capitalization."

UNLESS THE CONTEXT SUGGESTS OTHERWISE, REFERENCES IN THIS PROSPECTUS TO THE "COMPANY" OR "ACCREDO" MEAN ACCREDO HEALTH, INCORPORATED AND ITS SUBSIDIARIES AND PREDECESSOR ENTITIES. EXCEPT WHERE OTHERWISE INDICATED, ALL INFORMATION IN THIS PROSPECTUS: (I) GIVES EFFECT TO A RECAPITALIZATION TO BE EFFECTIVE PRIOR TO COMPLETION OF THE OFFERING PURSUANT TO WHICH 1,100,000 SHARES OF COMMON STOCK HELD BY THE COMPANY'S PRINCIPAL STOCKHOLDER, WELSH, CARSON, ANDERSON AND STOWE VII, L.P. ("WCAS VII"), WILL BE EXCHANGED FOR 1,100,000 SHARES OF NON-VOTING COMMON STOCK OF THE COMPANY (THE "RECAPITALIZATION"); (II) GIVES EFFECT TO THE REDEMPTION OF ALL OUTSTANDING SHARES OF THE COMPANY'S SERIES A CUMULATIVE PREFERRED STOCK (THE "SERIES A PREFERRED STOCK") AT A REDEMPTION PRICE OF $100 PER SHARE (PLUS ACCRUED AND UNPAID DIVIDENDS) USING A PORTION OF THE NET PROCEEDS FROM THE OFFERING; AND (III) ASSUMES NO EXERCISE OF THE UNDERWRITERS' OVER-ALLOTMENT OPTION. UNLESS THE CONTEXT SUGGESTS OTHERWISE, REFERENCES IN THIS PROSPECTUS TO "COMMON STOCK" INCLUDE THE NON-VOTING COMMON STOCK TO BE ISSUED AS PART OF THE RECAPITALIZATION.

SUMMARY FINANCIAL DATA
(IN THOUSANDS, EXCEPT PER SHARE DATA)

<TABLE>
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	PREDECESSOR(1)		COMPANY(1)			
	YEAR ENDED JUNE 30, 1995	JULY 1, 1995 THROUGH MAY 31, 1996	MAY 24, 1996 THROUGH JUNE 30, 1996	YEARS ENDED JUNE 30, 1997	YEARS ENDED JUNE 30, 1998	SIX MONTHS ENDED DECEMBER 31, 1997
STATEMENT OF OPERATIONS DATA:						
Revenues:						
Net patient service revenue	$ 71,513	$ 68,585	$ 6,647	$ 106,143	$ 170,002	$ 80,367
Other revenue	6,710	6,346	597	8,049	9,806	4,680
Equity in net income (loss) of joint ventures	646	(139)	49	1,017	1,150	539
Total revenues	78,869	74,792	7,293	115,209	180,958	85,586
Operating expenses:						
Cost of services	68,273	65,867	6,450	101,080	154,046	73,087
General and administrative	2,714	2,753	627	5,939	12,489	5,729
Bad debts	1,322	1,860	251	2,977	3,165	1,582
Depreciation and amortization	76	104	456	4,877	3,861	1,911
Corporate overhead allocation(2)	1,900	4,206	--	--	--	--
Total operating expenses	74,285	74,790	7,784	114,873	173,561	82,309
Operating income (loss)	4,584	2	(491)	336	7,397	3,277
Interest expense, net	943	266	106	984	3,552	1,781
Income (loss) before income taxes	3,641	(264)	(597)	(648)	3,845	1,496
Income tax expense (benefit)	1,387	(72)	(28)	1,502	2,420	1,067
Net income (loss)	$ 2,254	$ (192)	(569)	(2,150)	1,425	429
Mandatorily redeemable cumulative preferred stock dividends			(170)	(2,043)	(2,043)	(1,021)
Net income (loss) attributable to common stockholders			$ (739)	$ (4,193)	$ (618)	$ (592)
Net income (loss) per share attributable to common stockholders--diluted(4)			$ (.14)	$ (.82)	$ (.11)	$ (.11)
Weighted average shares and dilutive equivalents outstanding--diluted			5,107	5,418	6,041	5,852

<CAPTION>

	1998
STATEMENT OF OPERATIONS DATA:	
Revenues:	

Net patient service revenue.....	$ 113,748
Other revenue.....	5,647
Equity in net income (loss) of joint ventures.....	631
Total revenues.....	120,026
Operating expenses:	
Cost of services.....	101,909
General and administrative.....	8,391
Bad debts.....	2,284
Depreciation and amortization.....	1,986
Corporate overhead allocation(2).....	--
Total operating expenses.....	114,570
Operating income (loss).....	5,456
Interest expense, net.....	1,730
Income (loss) before income taxes.....	3,726
Income tax expense (benefit).....	1,863
Net income (loss).....	1,863
Mandatorily redeemable cumulative preferred stock dividends.....	(1,021)
Net income (loss) attributable to common stockholders.....	$ 842
Net income (loss) per share attributable to common stockholders--diluted(4).....	$ .14
Weighted average shares and dilutive equivalents outstanding--diluted.....	6,214

	DECEMBER 31, 1998	
	ACTUAL	AS ADJUSTED(3)
BALANCE SHEET DATA:		
Cash and cash equivalents.....	$ 1,636	$ 2,844
Working capital.....	25,470	27,453
Total assets.....	129,648	131,499
Long-term debt.....	36,538	27,498
Mandatorily redeemable cumulative preferred stock.....	30,814	--
Stockholders' equity.....	13,908	55,745

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(1) The Company was incorporated on May 24, 1996. On May 31, 1996, the Company acquired Southern Health Systems, Inc. ("SHS"), a holding company, and its wholly-owned subsidiary, Nova Factor, Inc. ("Nova Factor" or the "Predecessor"). Since the Company was newly formed at May 24, 1996, and because the Predecessor had been in existence for several years, the Company is considered the successor to the Predecessor's operations. The balance sheet data of the Predecessor represents the historical cost basis of the Predecessor's assets and liabilities prior to its acquisition by the Company. The acquisition of the Predecessor by the Company resulted in a new basis of accounting such that the Predecessor's assets and liabilities were recorded at their fair value in the Company's consolidated balance sheet upon consummation of the acquisition. Additionally, the Company acquired Hemophilia Health Services, Inc. (formerly known as Horizon Health Systems, Inc.) ("HHS") on June 1, 1997. Accordingly, the Summary Financial Data are not strictly comparable for the periods presented. See Notes 1 and 3 of Notes to the Company's Consolidated Financial Statements.

(2) The Predecessor has been allocated expenses for certain services provided by its parent, SHS, including cash management, tax reporting, risk management and executive management services. Charges for these services were based upon a general allocation methodology determined by SHS (used to allocate all corporate overhead expenses to SHS subsidiaries), and were not necessarily allocated based on specific identification of expenses. Management believes the allocation methodology is reasonable. See Note 6 of

Notes to the Nova Factor, Inc. Financial Statements.

(3) As adjusted to reflect the sale of the Common Stock offered hereby at an assumed initial public offering price of $16.00 per share and the receipt and application of the estimated net proceeds therefrom as if such transactions had occurred on December 31, 1998. See "Use of Proceeds" and "Capitalization." Retained earnings was reduced due to the extraordinary charge, net of tax effect, for unamortized Original Issue Discount associated with the early extinguishment of the Company's Senior Subordinated Notes Payable with part of the Offering proceeds. At December 31, 1998, the Original Issue Discount charge associated with these Notes was approximately $1,303,000, net of income taxes of $775,000.

(4) Historical diluted loss per share for the years ended June 30, 1996, 1997 and 1998 and the six-month period ended December 31, 1997 have been calculated using the same denominator as used for basic loss per share because the inclusion of dilutive securities in the denominator would have an anti-dilutive effect.

RISK FACTORS

THE COMMON STOCK OFFERED HEREBY INVOLVES A HIGH DEGREE OF RISK. IN ADDITION TO THE OTHER INFORMATION IN THIS PROSPECTUS, PROSPECTIVE INVESTORS SHOULD CAREFULLY CONSIDER THE FOLLOWING RISK FACTORS IN EVALUATING THE COMPANY, ITS BUSINESS AND AN INVESTMENT IN THE COMMON STOCK OFFERED HEREBY. THIS PROSPECTUS CONTAINS FORWARD-LOOKING STATEMENTS. SUCH STATEMENTS (WHICH MAY BE IDENTIFIED BY WORDS SUCH AS "ANTICIPATE," "BELIEVE," "ESTIMATE," "EXPECT," "INTEND" AND SIMILAR EXPRESSIONS) INCLUDE, WITHOUT LIMITATION, THE COMPANY'S BELIEFS CONCERNING THE AVAILABILITY OF NEW DRUGS, THE DEMAND FOR ITS SERVICES, ITS ABILITY TO EXPAND THROUGH JOINT VENTURES AND ACQUISITIONS, ITS ABILITY TO MAINTAIN ITS PRICING ARRANGEMENTS WITH SUPPLIERS THAT PRESERVE ITS MARGINS, THE IMPACT OF EXISTING AND NEW GOVERNMENT REGULATIONS, THE IMPACT OF YEAR 2000 ISSUES, ITS NEED FOR ADDITIONAL CAPITAL, THE SEASONALITY AND VARIABILITY OF ITS OPERATING RESULTS AND ITS ABILITY TO IMPLEMENT THE STRATEGIES DESCRIBED HEREIN AND ACHIEVE ITS OBJECTIVES. FORWARD-LOOKING STATEMENTS ARE NOT GUARANTEES OF FUTURE PERFORMANCE AND ARE INHERENTLY SUBJECT TO RISKS AND UNCERTAINTIES, MANY OF WHICH CANNOT BE PREDICTED WITH ACCURACY AND SOME OF WHICH MIGHT NOT EVEN BE ANTICIPATED. FUTURE EVENTS AND ACTUAL RESULTS, FINANCIAL AND OTHERWISE, COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN OR CONTEMPLATED BY THE FORWARD-LOOKING STATEMENTS CONTAINED HEREIN. IMPORTANT FACTORS THAT COULD CONTRIBUTE TO SUCH DIFFERENCES ARE SET FORTH BELOW UNDER "RISK FACTORS" AND ELSEWHERE IN THIS PROSPECTUS, INCLUDING IN "PROSPECTUS SUMMARY," "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" AND "BUSINESS."

DEPENDENCE ON RELATIONSHIPS WITH LIMITED NUMBER OF BIOTECHNOLOGY DRUG MANUFACTURERS. The Company's revenue and profitability are highly dependent on its relationships with a limited number of biotechnology drug companies that manufacture and supply drugs for the specific chronic diseases served by the Company. The Company derives a substantial portion of its total revenue from its relationships with its three largest suppliers, Genzyme, Biogen and Genentech. The Company's revenue derived from these relationships represented 39%, 29% and 5%, respectively, of total revenue for the six months ended December 31, 1998; 46%, 23%, and 6%, respectively, for the fiscal year ended June 30, 1998 and 64%, 14% and 9%, respectively, for the fiscal year ended June 30, 1997. Due to the Company's focus on a limited number of chronic diseases, the Company is likely to continue to experience a high degree of concentration of business with several suppliers, which concentration may increase from continuing consolidation in the biotechnology industry. The Company's agreements with these suppliers generally limit the Company's ability to supply competing drugs during (and in some cases for up to five years after) the term of the agreement and allow the supplier to distribute directly or through other parties. These agreements are generally short-term, with the earliest renewal date arising in May 1999 as to the agreement with Biogen, and may be canceled by either party, without cause, upon between 60 and 90 days prior notice. The Company and its suppliers periodically adjust the Company's purchase price and other terms for the drugs covered by such contracts as well as the scope and pricing of services provided by the Company under such contracts. Any termination, adverse adjustment of purchase price or other terms, change in the supplier's distribution methods or adverse change in the Company's relationship with any of its suppliers (including as a result of consolidation among drug suppliers) could have a material adverse effect on the Company's business, financial condition and results of operations. See "Business--Disease Markets and Manufacturer Relationships" and "--Suppliers."

CONCENTRATION OF DRUGS AND CHRONIC DISEASES. The Company currently focuses almost exclusively on a limited number of complex and expensive drugs that treat certain specific chronic diseases: Gaucher Disease, for which the Company offers

Ceredase-Registered Trademark- and Cerezyme-Registered Trademark- supplied by Genzyme; Multiple Sclerosis, for which the Company primarily offers Biogen's Avonex-Registered Trademark- (Interferon Beta-1a) ("Avonex-Registered Trademark-"); growth hormone-related disorders, for which the Company primarily offers Protropin-Registered Trademark-, Nutropin-Registered Trademark- and Nutropin AQ-Registered Trademark- supplied by Genentech; and hemophilia, for which the Company offers all currently approved clotting factor products. In addition, in August 1998 the Company entered into a contract with Centocor to distribute Remicade-TM- for the treatment of Crohn's Disease and in October 1998 initiated sales and services with respect to Remicade-TM-. The Company's revenue derived from its pharmacy services related to Gaucher Disease, Multiple Sclerosis, growth hormone-related disorders and hemophilia represented 39%, 29%, 6% and 23%, respectively, of total revenue for the six months ended December 31, 1998; 46%, 23%, 7% and 23%, respectively, for the fiscal year ended

June 30, 1998 and 64%, 14%, 10% and 9%, respectively, for the fiscal year ended June 30, 1997. The drugs offered by the Company are complex (generally requiring injection, special handling and patient education), are expensive (with small numbers of patients representing large amounts of revenue), serve small patient populations in the United States and, other than drugs for hemophilia and growth hormone-related disorders, are available only from single sources that generally restrict the Company from offering competing drugs. Certain drugs handled by the Company have been granted "orphan drug" status by the United States Food and Drug Administration ("FDA") for the treatment of rare diseases or conditions with small patient populations. The FDA provides drug manufacturers with special incentives, including research tax credits and drug study design assistance, for orphan drug development. Orphan drug status also provides that, once an orphan drug receives FDA approval, the FDA cannot approve a second drug for the same treatment indication for a period of seven years, unless the new drug is either physiochemically different or clinically superior. In particular, orphan drug status applicable to drugs handled by the Company expires as follows: Nutropin-Registered Trademark- expires November 2000; Cerezyme-Registered Trademark- expires May 2001; Avonex-Registered Trademark- expires May 2003; and Remicade-TM- expires September 2005. The Company is not the exclusive provider of pharmacy services for all patients in any particular market or for any particular disease. In addition, there are alternative treatment regimens, other than those offered by the Company, available for each disease treated by the Company, except Gaucher Disease. As a result, the Company could be materially and adversely affected by a variety of factors, such as patients shifting to other currently available treatment regimens, the development of a new treatment modality not requiring the Company's specialty pharmacy services, an adverse reaction to or recall of a drug, the expiration of or challenge to a drug patent, the expiration or challenge to orphan drug status, the availability of a competing treatment through a new drug or a new indication for an existing drug, the loss of a managed care or other payor relationship covering a number of high revenue patients, a disease cure or the death of a high revenue patient. Furthermore, due to the small patient populations of the diseases serviced by the Company, future growth is highly dependent on the Company expanding the base of drugs for which it provides its services, expanding its relationships with its current suppliers and establishing relationships with new suppliers, none of which can be assured. See "Business--Disease Markets and Manufacturer Relationships" and "--Suppliers."

In July 1996, Berlex Laboratories, Inc. ("Berlex") filed suit against Biogen alleging patent infringement by Biogen in the production of Avonex-Registered Trademark- and seeking, among other things, a permanent injunction restraining Biogen from such alleged infringement. As of March 1999, the suit involving Berlex was still pending and a trial date is currently set for September 1999. Further, Serono Laboratories, Inc. ("Serono") recently requested the FDA to grant an exception to the orphan drug exclusivity of Avonex-Registered Trademark-, which the FDA declined on March 1, 1999. The granting of a permanent injunction that would restrain Biogen from manufacturing Avonex-Registered Trademark-, the inability of Biogen to continue to supply Avonex-Registered Trademark- on terms favorable to the Company or the loss of orphan drug exclusivity due to further challenges by Serono or others could have a material adverse effect on the Company's business, financial condition and results of operations.

DEPENDENCE ON MEDICAL CENTER RELATIONSHIPS. The Company has certain joint venture or business management relationships, as applicable, with seven medical centers (or their affiliates) that involve services primarily related to hemophilia and growth hormone-related disorders. For the six-month period ended December 31, 1998 and the fiscal year ended June 30, 1998, the Company derived in the aggregate approximately 17% and 30%, respectively, of its income before income taxes from its equity in the net income of these joint ventures, and in particular 6% and 16%, respectively, from the Company's joint venture with Alternative Care Systems, Inc. located in Dallas, Texas and 5% and 9%,

respectively, from the Company's joint ventures with CM Healthcare Resources, Inc. located in Chicago, Illinois. The Company and each of the medical centers with which it has a joint venture typically share in the profits and losses of the venture in proportion to their respective capital contributions, with neither party having voting control. The agreements with these medical centers are short-term, ranging between one and five years in duration, and may be cancelled by either party, without cause, upon between one and twelve months prior notice. Any termination, adjustment to terms or adverse change in the Company's relationships with these medical centers, including as a result of consolidation within the hospital industry, regulatory uncertainties inherent in the structure of the relationships or restrictive changes to regulatory requirements, could have a material adverse effect on the Company's business, financial

condition and results of operations. See "Business--Strategic Relationships with Medical Centers" and "-- Government Regulation."

DEPENDENCE ON BIOTECHNOLOGY DRUG INDUSTRY. The Company's business is highly dependent on research, development, manufacturing and marketing expenditures of biotechnology drug companies and the ability of such companies to develop, supply and generate demand for drugs that meet the Company's service model. The Company has benefited to date from the willingness of such companies to outsource specialty pharmacy services such as those offered by the Company, but there can be no assurance that this trend will continue. Furthermore, the Company would be materially and adversely affected by unfavorable developments in the biotechnology drug industry generally, such as, among other things, supply shortages, adverse drug reactions, drug recalls, increased competition among biotechnology drug companies, the inability of drug companies to obtain capital needed to finance product development, governmental or private market initiatives to reduce the retail price of drugs, changes in the FDA approval process or governmental or private initiatives to regulate the manner in which drug manufacturers, health care providers or pharmacies promote or sell their products and services. Any of these factors could result in a decline in the development of drugs, a general decline in research, development and marketing expenditures, a reduction in the retail price of drugs sold by the Company, a shortage of drugs sold by the Company or a reduction in the use by drug companies of the specialty pharmacy services offered by the Company, any of which could have a material adverse effect on the Company's business, financial condition and results of operations. See "Business--Industry Background."

DEPENDENCE ON PAYORS AND REIMBURSEMENT RELATED RISKS. The profitability of the Company depends on payment and reimbursement from governmental and nongovernmental third-party payors. The primary trend in the United States health care industry is toward cost containment. The increasing prevalence of managed care, centralized purchasing decisions, consolidation among and integration of health care providers and competition for patients is continuing to affect pricing, purchasing and usage patterns in health care. Decisions regarding the use of a particular drug treatment are increasingly influenced by large private payors, managed care organizations, group purchasing organizations, pharmacy benefits management companies, regional integrated delivery systems and similar organizations, and are becoming more economically focused, with decisions taking into account product cost and whether a product reduces the overall cost of treatment. For the six-month period ended December 31, 1998 and the fiscal years ended June 30, 1998 and 1997, the Company derived approximately 83%, 80% and 83%, respectively, of its gross patient service revenue from private payors (including self-pay), which included 6%, 7% and 11%, respectively, from sales to private physician practices whose ultimate payor is typically Medicare. Prior to the Company acquiring an interest in Childrens Hemophilia Services from Children's Home Care ("CHC"), the Company sold products and services to CHC. As of February 28, 1999, CHC owed the Company $3,477,123 of which $3,447,833 had been outstanding for over 90 days. Furthermore, many other private payors, including large managed care organizations and some private physician practices, have recently experienced financial difficulty. There can be no assurance that the Company will not be adversely affected by cost containment measures exerted by its third party payors, the influence of such organizations over decisions regarding the use of drug treatments or the financial inability of any such payors, including private physician practices, to satisfy their payment obligations to the Company. See "Business--Payors."

The Company also derives a significant portion of its revenue from governmental programs such as Medicare and Medicaid. For the six-month period ended December 31, 1998 and the fiscal years ended June 30, 1998 and 1997, the Company received reimbursement payments from federal and state programs that accounted for approximately 17%, 20% and 17%, respectively, of the Company's gross patient service revenue, excluding sales to private physician practices whose ultimate payor is typically Medicare. Such programs are highly regulated and subject to frequent and substantial changes and cost containment measures. In recent years, changes in these programs have limited and reduced reimbursement to providers, and Congress recently enacted the Balanced Budget

Act of 1997 which establishes a plan to balance the federal budget by fiscal year 2002 and which includes significant additional reductions in spending levels for these programs. This legislation also replaced and relaxed the federal Medicaid payment standard, thereby increasing state discretion over the financial administration of Medicaid programs. Furthermore, federal and state proposals are pending that would

impose further limitations on governmental payments and that would increase patient co-payments and deductibles. Additionally, a number of states are considering legislation designed to reduce their Medicaid expenditures and provide universal coverage and additional care for certain populations, including proposals to impose additional taxes on providers to help finance or expand such programs. Any of these changes could result in significant reductions in payment levels for drugs handled and services provided by the Company, which would have a material adverse effect on the Company's business, financial condition and results of operations. See "Business--Payors."

VARIATION IN QUARTERLY OPERATING RESULTS; SEASONALITY. The Company's results of operations historically have fluctuated on a quarterly basis and can be expected to continue to be subject to quarterly fluctuations. In particular, the Company typically increases its operating expenses in anticipation of the launch of a new drug, and if the new drug does not generate the levels of sales during the periods anticipated by management, the Company's results in that and future quarters could be adversely affected. Quarterly results can also fluctuate as a result of the timing of periodic adjustments to prices and other terms with the Company's drug suppliers, the accuracy of estimates of resources required for ongoing programs, the timing and integration of acquisitions, changes in regulations related to biotechnology companies, physician prescribing patterns, and general economic conditions, none of which can be adequately predicted by the Company. Quarterly operating results also fluctuate as a result of the annual renewal (on a calendar year basis) of deductible and co-payment requirements, thereby affecting patient ordering patterns in a manner that creates a seasonal reduction in revenue from existing drug programs for the Company's third fiscal quarter ending March 31. Quarterly results may also fluctuate as a result of the Company providing drugs, now or in the future, that treat seasonal illnesses. The Company believes that quarterly comparisons of its financial results may not necessarily be meaningful and should not be relied upon as an indication of future performance. In addition, fluctuations in quarterly results could affect the market price of the Common Stock in a manner unrelated to the longer term operating performance of the Company. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Quarterly Fluctuations and Seasonality."

JOINT VENTURE AND ACQUISITION RISKS. As part of its strategy, the Company continually evaluates joint venture and acquisition opportunities. Such transactions involve numerous risks, including difficulties in the assimilation of operations, costs incurred in connection with the transaction, diversion of management's attention from other business concerns, potential loss of key employees of an acquired company and delays to address regulatory requirements. There can be no assurance that the Company will complete any future acquisitions or joint ventures, or that such transactions, if completed, will be integrated successfully or will contribute favorably to the Company's operations and financial condition. In addition, acquisitions and joint ventures can expose the Company to unknown or contingent liabilities of acquired businesses, including liabilities for failure to comply with health care or reimbursement laws. In May 1996 the Company acquired all of the outstanding capital stock of SHS, which had four subsidiaries (including Nova Factor), each of which had prior operating histories in one or more health care businesses. Prior to closing the acquisition, SHS divested all of its subsidiaries other than Nova Factor. However, there can be no assurance that the Company will not be held liable for matters relating to the operations of the divested subsidiaries for periods prior to the divestiture. In June 1997, the Company acquired all of the outstanding capital stock of HHS, which had an extensive operating history, and in November 1998 the Company acquired a 50% interest in two California general partnerships. While the Company negotiates indemnification provisions that it considers to be appropriate for the transactions that it enters into, there can be no assurance that liabilities relating to the prior operations of these and other acquired companies will not have a material adverse effect on the Company's business, financial condition and results of operations. Furthermore, future acquisitions or joint ventures may result in dilutive issuances of equity securities, incurrence of additional debt, amortization of expenses related to acquired goodwill and intangible assets and exposure to unknown or contingent liabilities, any of which could have a material adverse effect on the Company's business, financial condition and results of operations. See "The Company."

GOVERNMENT REGULATION. The conduct of marketing, selling and purchasing drugs and medical supplies by and among manufacturers, distributors, health care providers and patients is extensively regulated and periodically scrutinized by state and federal governments for compliance with laws and regulations regarding, among other things, inducements for referrals, prohibited financial

relationships with physicians, joint venture and management arrangements, product discounts, incentives to patients and professional licensure. This regulatory framework is complex and the laws are very broad in scope, subject to differing interpretations and lack substantive court decisions addressing many arrangements under which the Company has conducted and expects to conduct its business. Any failure to comply or alleged failure to comply with applicable laws and regulations could have a material adverse effect on the Company's business, financial conditions and results of operations. See "Business--Government Regulation."

In particular, federal and state governments enforce a federal statute that prohibits the offer, payment, solicitation or receipt of any remuneration, directly or indirectly, overtly or covertly, to induce or in exchange for the referral of patients covered by certain governmental programs, or the leasing, purchasing, ordering or arranging for or recommending the lease, purchase or order of any item, good, facility or service covered by such programs (the "Anti-Kickback Law"). The Health Insurance Portability and Accountability Act of 1996 ("HIPAA") greatly expanded the prohibitions of the Anti-Kickback Law by applying them to almost all health care programs that receive federal funding, creating new violations for certain fraudulent activity applicable to both public and private "health care benefit programs" and prohibiting inducements to Medicare or Medicaid eligible patients. The Company is also subject to the Ethics in Patient Referrals Act of 1989, as amended, commonly referred to as the "Stark Law," which prohibits physician referrals for certain health-related items, including those offered by the Company, to entities with which the physician or an immediate family member has a "financial relationship," and prohibits the recipient of any such referral from billing for the referred item. Violations of these laws are punishable by civil sanctions, including significant monetary penalties and exclusion from participation in the Medicare and Medicaid programs, and criminal sanctions in the case of the Anti-Kickback Law and HIPAA. Due to the breadth and complexity of these laws, there can be no assurance that the Company, any of its personnel, or any significant customer or business partner of the Company, will not become subject to sanctions that could have a material adverse effect on the Company's business, financial condition and results of operations. Additionally, the sanctioning or exclusion of a manufacturer or recipient of the Company's products or services, even for activities unrelated to those of the Company, could also have a material adverse effect on the Company's business, financial condition and results of operations. See "Business--Government Regulation."

In an attempt to clarify which arrangements are not subject to prosecution under the Anti-Kickback Law, the Department of Health and Human Services ("DHHS") adopted certain "safe harbor" regulations and continues to publish clarifications to such safe harbors. Arrangements that comply with all the requirements of all applicable safe harbors are deemed not to violate the Anti-Kickback Law. Several of the Company's business arrangements, such as joint venture and management arrangements with medical centers, service arrangements with physicians and product discount arrangements with its suppliers, do not satisfy all of the requirements necessary to fall within the applicable safe harbor. Furthermore, the Office of the Inspector General ("OIG") of DHHS has published certain proposed regulations under HIPAA outlining certain permissible patient incentives designed to promote preventative care or that are DE MINIMIS under the HIPAA prohibition against beneficiary inducements. The Company routinely provides certain items and services to its patients that may not fit within the proposed regulation. It is possible that some of the Company's practices could be challenged. Although failure of a transaction or arrangement to fit within a specific safe harbor provision or the proposed regulation for beneficiary inducements does not necessarily mean that the transaction or arrangement is illegal or that prosecution will be pursued, there can be no assurance that the Company's practices will not be challenged, or that the Company will not be subject to sanctions or be required to alter or discontinue certain of its practices, any of which could have a material adverse effect on the Company's business, financial condition and results of operations. See "Business--Government Regulation."

State laws prohibit the practice of medicine, pharmacy and nursing without a license. For example, many states interpret the practice of nursing to include health teaching, health counseling, the provision of care supportive to or restorative of life and well being and the administration of medical regimens prescribed by a physician. Accordingly, to the extent that the Company assists patients and providers in helping patients to comply with prescribed treatment programs, such activities could be deemed by a state to be the practice of medicine, pharmacy or nursing. There can be no assurance that the Company's operations will not be challenged as constituting the unlicensed practice of medicine or nursing or being outside the scope of its licensed pharmacists or pharmacy licenses. If such a challenge were made successfully in any state, the Company and its personnel could be subject to civil and criminal penalties under such state's law and the Company could be required to reduce, restructure, outsource or cease its business in that state. See "Business--Government Regulation."

Significant public attention recently has been focused on the health care industry due to ongoing federal and state investigations related to among other

things joint ventures, referral and billing practices, product discount arrangements, home health care services, dissemination of confidential patient information, clinical drug research trials and gifts for patients. In addition, state and federal agencies have initiated billing review projects in certain states and are expected to extend such projects to additional states, including states in which the Company does business. These enforcement actions increase the likelihood of governmental investigations of the Company, its affiliates and their respective predecessors and personnel, and parties with whom it conducts business, and there can be no assurance that governmental investigators will not take positions that are inconsistent with industry practices, including the Company's or such other parties' practices. In addition to investigations and enforcement actions by governmental agencies, QUI TAM (or "whistleblowers") actions may be brought under the False Claims Act by private individuals on behalf of the government. Because the health care industry will continue to be subject to substantial regulation, there can be no assurance that the Company's activities will not be challenged or that the Company will not be subject to sanctions or be required to alter or discontinue certain of its practices, any of which could have a material adverse effect on the Company's business, financial condition and results of operations. See "Business--Government Regulation."

POSSIBLE HEALTH CARE REFORM. Health care reform measures have been considered by Congress and other federal and state bodies during recent years. The intent of the proposals generally has been to reduce health care costs and the growth of total health care expenditures, to expand health care coverage for the uninsured and to eliminate fraud, waste and financial abuse. Although comprehensive health care reform has been considered, only limited proposals have been enacted. Comprehensive health care reform may be considered again and efforts to enact reform bills are likely to continue. Implementation of government health care reform may adversely affect development and marketing expenditures by biotechnology companies, which could decrease the business opportunities available to the Company or the demand for its specialty services. The Company is unable to predict the likelihood of such legislation or similar legislation being enacted into law or the effects that any such legislation would have on the Company.

MANAGEMENT OF GROWTH. The Company's business has grown rapidly in its last two fiscal years with total revenue increasing from $115.2 million in fiscal year 1997 to $181.0 million in fiscal year 1998, and from $85.6 million in the first six months of fiscal year 1998 to $120.0 million in the first six months of fiscal year 1999. This growth has resulted in a substantial increase in the number of its employees (from 203 at June 30, 1997 to 332 at December 31, 1998), the size of its programs and the scope of its operations. This growth has placed and, if such growth continues, will continue to place a strain on operational, human and financial resources and may necessitate relocation of certain operations to one or more cities in which the Company does not currently have a facility. The Company's ability to manage such growth effectively will depend upon its ability to enhance its management team and its ability to attract and retain skilled employees. The Company's success will also depend on the ability of its officers and key employees to continue to implement and improve its operational, management information and financial control systems, and to expand, train and manage its work force. There can be no assurance that the Company will be able to manage any future growth successfully or provide the

necessary resources to successfully manage its business. Failure to manage growth effectively could have a material adverse effect on the Company's business, financial condition and results of operations.

COMPETITION; INDUSTRY CONSOLIDATION. The specialty pharmacy industry is highly competitive and is experiencing both horizontal and vertical consolidation. All of the drugs, supplies and services that the Company provides are available from sources other than the Company. Current and potential competitors of the Company include specialty pharmacy divisions of wholesale drug distributors; specialty pharmacy distributors; pharmacy benefit management companies; hospital-based pharmacies; retail pharmacies; home infusion therapy companies; comprehensive hemophilia treatment centers; and other alternate site health care providers. In addition, the Company's drug suppliers or their competitors have developed and may continue to develop and implement their own direct specialty pharmacy service programs in lieu of using the Company. In addition, managed care companies, pharmacy benefit managers and other payors can influence the source from which their enrollees may obtain drugs through required formularies and may desire to use full-line providers on their provider panels. Many of the Company's competitors and potential competitors have greater financial, technical, marketing and managerial resources than the Company. Furthermore, certain of the Company's competitors, such as hospitals and certain hemophilia treatment centers, are eligible for federally mandated discounts for drug purchases that are not available to the Company, and the Federal Health Resources and Services Administration ("HRSA") is proposing to broaden the number of centers eligible for such discounts by requiring participation in the discount program as a condition to receiving HRSA grants. There are relatively few barriers to entry into the Company's specialty contract pharmacy service segment and there can be no assurance that, as the segment continues to evolve, additional competitors with greater resources than the Company will not enter

the market or that the Company's suppliers will not choose to provide such specialty services directly or through other businesses that have a broader range of sales, marketing and support services. There can be no assurance that competitive pressures will not increase, including as a result of further industry consolidation, or that such pressures will not have a material adverse effect on the Company's business, financial condition and results of operations. See "Business--Competition."

RELIANCE ON TELEPHONE AND COMPUTER SYSTEMS; YEAR 2000 COMPLIANCE RISK. Because the Company believes that its success depends, in part, upon its services provided over the telephone on a real-time basis, any continuing disruption in either its computer system or its telephone system could adversely affect its ability to receive and process customer orders, provide its service to patients and ship products on a timely basis, and could adversely affect the Company's relations with its patients and suppliers.

Many currently installed computer systems and software products are coded to accept only two-digit entries in the date code field. By the year 2000, these date code fields will need to accept four-digit entries to distinguish 21st century dates from 20th century dates. Computer systems that do not accept four-digit entries could fail or produce erroneous results and cause disruptions of operations. As a result, many software and computer systems may need to be upgraded or replaced in order to comply with such "year 2000" requirements. The Company is in the process of obtaining written verification from vendors to determine whether the Company's computer systems and software products are year 2000 compliant. Also, the Company is upgrading its pharmacy management systems, including its billing and accounts receivable systems, to address year 2000 issues. The failure of the Company's systems to be year 2000 compliant could have a material adverse effect on the Company's business, financial condition and results of operations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Year 2000 Issue."

In addition, the Company has ongoing relationships with third-party payors, suppliers, vendors, and others that may have computer systems with year 2000 problems that the Company does not control. There can be no assurance that the Company's payors, including the fiscal intermediaries and governmental agencies, with which the Company transacts business and which are responsible for payment to the Company will not experience significant problems with year 2000 compliance. The Health Care Financing Administration ("HCFA"), which administers the Medicare and Medicaid programs, has stated that its progress as of February 1999 on efforts to renovate, test and certify the systems that process and pay Medicare claims have lead to its expectation of being ready on January 1, 2000 to process and pay claims. HCFA's failure to remedy year 2000

problems, however, could delay payment of claims to providers. HCFA has also stated its concern about the readiness of fiscal intermediaries, carriers, providers and suppliers to prepare and submit claims in a year 2000 compliant format and moved the target date for submission of claims in HCFA's year 2000 compliant format from January 1, 1999 to April 5, 1999. The failure of third parties to remedy year 2000 problems could have a material adverse effect on the Company's business, financial condition and results of operations.

RISKS RELATED TO SHIPPING. Substantially all of the Company's revenues are derived from the sale of drugs that are shipped to its patients. The Company ships most of its orders by overnight delivery, and typically bears the cost of shipment. Shipping is a significant expense in the operation of the Company's business and principally all of the Company's products are shipped by a single carrier, Federal Express Corporation ("FedEx"). Accordingly, any significant increase in shipping rates could have an adverse effect on the Company's results of operations. Similarly, strikes or other service interruptions by FedEx, or by any other carrier that may indirectly affect FedEx, would adversely affect the Company's ability to deliver products on a timely basis and therefore its ability to generate revenue. FedEx pilots are unionized members of the FedEx Pilot's Association, and in February 1999 ratified their first collectively bargained contract. The drugs shipped by the Company require special handling, including refrigeration to maintain temperatures within certain ranges. The Company does not maintain insurance against product spoilage during shipment. Due to their high cost, even small shipments of the Company's products can represent significant dollar amounts of inventory. Accordingly, the spoilage of one or more shipments of the Company's products could have a material adverse effect on the Company's results of operations.

DEPENDENCE ON KEY PERSONNEL. The Company depends on a number of key executives, the loss of the services of which could have a material adverse effect on the Company. The Company does not maintain "key person" life insurance policies on any of its executives. The Company also depends on its ability to attract and retain qualified professional (including pharmacists) and technical

operating staff. There can be no assurance that the Company will be able to continue to attract and retain such personnel, and its inability to do so could have a material adverse effect on the Company's business, financial condition and results of operations.

NEED FOR FINANCING. In order to implement its growth strategy, the Company will require substantial capital resources and will need to maintain its existing capital resources and incur, from time to time, additional short- and long-term indebtedness, including purchasing terms from its suppliers. The Company also may need to issue, in public or private transactions, equity or debt securities, the terms of which will depend on market and other conditions. There can be no assurance that existing or additional financing will be available on terms acceptable to the Company, if at all. As a result, the Company may not be able to implement fully its growth strategy. In addition, any such financing may result in dilutive issuances of equity securities. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources."

RISKS RELATED TO INTANGIBLE ASSETS. The formation of the Company by WCAS VII and certain of its affiliates (collectively, "Welsh Carson") and the subsequent acquisitions by the Company of SHS and HHS have resulted in the recording of a significant amount of goodwill on the Company's financial statements. As of December 31, 1998, the Company had goodwill, net of accumulated amortization, of approximately $49.0 million, or 38% of total assets and 352% of stockholders' equity. Goodwill arises when an acquiror pays more for a business than the fair value of the tangible and separately measurable intangible net assets. Generally accepted accounting principles require that goodwill and all other intangible assets be amortized over the period benefited by such assets. Management has determined that period to be no less than 40 years for goodwill and, therefore, the Company amortizes goodwill on a straight line basis over a period of 40 years. The use of an inappropriately long amortization period for a material portion of goodwill would cause an overstatement of earnings in periods immediately following the transaction and in later periods would cause earnings to be understated by reason of an amortization charge for an asset no longer providing a corresponding benefit to the Company. Earnings in later years could also be significantly affected if management determined then that the

remaining balance of goodwill is impaired and needed to be written off as a charge against earnings. Management has reviewed with its independent accountants the allocation of consideration paid for the assets (including goodwill) and liabilities of the acquired business. Management has concluded that the anticipated future benefit associated with the goodwill recognized to date will continue indefinitely, and is not presently aware of any persuasive evidence that any material portion of goodwill will dissipate over a period shorter than 40 years.

In addition, the Company's growth strategy will likely result in additional goodwill on the Company's financial statements. There can be no assurance that the value of goodwill will ever be realized by the Company. On an on-going basis, the Company makes an evaluation to determine whether events and circumstances indicate that all or a portion of the carrying value of goodwill may no longer be recoverable, in which case a charge to earnings may be necessary to write off unrecoverable goodwill. Any future determination requiring the write-off of a significant portion of goodwill could have a material adverse effect on the Company's business, financial condition and results of operations. See Note 3 of Notes to the Company's Consolidated Financial Statements as of and for the year ended June 30, 1998.

POTENTIAL LIABILITY; AVAILABILITY OF INSURANCE. The Company's business exposes it to risks inherent in the provision of drugs and related services. Although the Company currently maintains professional liability insurance, there can be no assurance that the scope of coverage or limits of such insurance will be adequate to protect it against future claims. In addition, there can be no assurance that the Company will be able to maintain adequate liability insurance in the future on acceptable terms or with adequate coverage against potential liabilities.

CONTROL BY AND USE OF PROCEEDS TO BENEFIT EXISTING STOCKHOLDERS. Upon the completion of this Offering, the Company's directors and executive officers and their affiliates as a group (including shares held by Welsh Carson) will beneficially own approximately 60% of the outstanding voting Common Stock (or approximately 56% if the Underwriters' over-allotment option is exercised in full). As a result, these stockholders, if acting together, will have effective control over the Company through their ability to control the election of directors and all other matters that require a vote by the Company's stockholders. Such control by the existing stockholders may have the effect of preventing a change in control of the Company. The existing stockholders' ability to prevent such a change in control of the Company may have an adverse effect on the market price of the Common Stock. See "Management--Directors and Executive Officers," "Principal Stockholders," and "Description of Capital

Stock."

The Company will use a portion of the net proceeds from this Offering, and possibly together with other available Company funds, to redeem all of the outstanding shares of Series A Preferred Stock and to prepay in full all principal and accrued interest on the Company's outstanding 10% Senior Subordinated Notes due June 1, 2004 (the "Senior Subordinated Notes"). Welsh Carson owns approximately 97% of the outstanding shares of Series A Preferred Stock and substantially all outstanding Senior Subordinated Notes. In addition, certain executive officers and directors of the Company own, in the aggregate, approximately 2% of the outstanding shares of Series A Preferred Stock. See "Use of Proceeds" and "Certain Transactions."

NO PRIOR TRADING MARKET; POTENTIAL VOLATILITY OF STOCK PRICE. Prior to the Offering, there has been no public market for the Common Stock, and there can be no assurance that an active trading market for the Common Stock will develop or, if one does develop, that it will be maintained. The initial public offering price, which will be established by negotiations between the Company and the representatives of the Underwriters, may not be indicative of prices that will prevail in the trading market for the Common Stock. The market price of the Common Stock could be subject to wide fluctuations in response to variations in operating results from quarter to quarter, changes in earnings estimates by analysts, market conditions in the industry and general economic conditions. Furthermore, the stock market has experienced significant price and volume fluctuations unrelated to the operating performance of particular companies. These market fluctuations may have an adverse effect on the market price of the Common Stock.

SHARES ELIGIBLE FOR FUTURE SALE. Sales of substantial amounts of Common Stock in the public market, or the perception that such sales might occur, could have a material adverse effect on the market price of the Common Stock. Immediately following the Offering, the Company will have outstanding 8,627,087 shares of Common Stock (9,077,087 shares if the Underwriters' over-allotment option is exercised in full), excluding 899,286 shares reserved for issuance upon the exercise of outstanding stock options and an additional 698,214 shares of Common Stock reserved for future stock awards under the Company's stock option and employee stock purchase plans. The 3,000,000 shares of Common Stock offered hereby (3,450,000 if the Underwriters' over-allotment option is exercised in full) will be eligible for public sale without restriction under the Securities Act by persons other than affiliates (as that term is defined in Rule 144 under the Securities Act) of the Company. All of the remaining 5,627,087 shares of Common Stock outstanding will be "restricted" within the meaning of Rule 144 and may not be resold in the absence of registration under the Securities Act or the availability of an exemption from such registration, including the exemption provided by Rule 144. Taking into consideration the effect of the 180-day "lock-up" agreements described herein (covering an aggregate of 5,627,087 shares and options to purchase an additional 899,286 shares held by executive officers, other employees, directors and certain existing stockholders of the Company), no restricted shares of Common Stock will be eligible for sale in the public market immediately after the Offering and all restricted shares will be eligible for sale upon the expiration of the 180-day lock-up agreements, subject to certain volume and other limitations of Rule 144. Holders of 5,627,087 restricted shares of Common Stock have contractual rights to have those shares registered for resale to the public. If such holders, by exercising their registration rights after the 180-day lockup period, cause a large number of shares to be registered and sold in the public market, the market price of the Common Stock might be adversely affected.

The Company intends to register on Form S-8 under the Securities Act, as soon as practicable on or after the effective date of the Offering, 698,214 shares of Common Stock reserved for future stock awards under the Company's stock option and employee stock purchase plans and 899,286 shares of Common Stock reserved for issuance upon the exercise of outstanding options. This registration statement will be effective upon filing. Shares registered and issued pursuant to such registration statement will be freely tradable except to the extent that the holders thereof are deemed to be affiliates of the Company, in which case the transferability of such shares will be subject to the volume limitations of Rule 144. See "Shares Eligible for Future Sale."

ANTI-TAKEOVER EFFECTS OF CERTAIN CHARTER, BYLAW AND OTHER PROVISIONS. Certain provisions of the Company's Amended and Restated Certificate of Incorporation and Amended and Restated Bylaws, including the classification of the Board of Directors into three classes, could have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from attempting to acquire, control of the Company. Such provisions could limit the price that certain investors might be willing to pay in the future for shares of the Common Stock. Certain of such provisions

allow the Company to issue preferred stock with rights senior to those of the Common Stock and impose various procedural and other requirements which could make it more difficult for stockholders to effect certain corporate actions. In addition, the Company is subject to the provisions of Section 203 of the Delaware General Corporation Law ("DGCL"), which restricts certain business combinations with any "interested stockholder" and may delay, defer or prevent a change in control of the Company. See "Description of Capital Stock."

IMMEDIATE AND SUBSTANTIAL DILUTION. The purchasers of shares of Common Stock pursuant to the Offering will experience immediate and substantial dilution of the net tangible book value per share of Common Stock from the initial public offering price. At an assumed initial public offering price of $16.00 per share, purchasers in the Offering will incur dilution of $15.53 per share. See "Dilution."

ABSENCE OF DIVIDENDS. The Company has not and does not expect to declare or pay any cash dividends in the foreseeable future. The Company intends to retain all earnings, if any, in order to expand its operations. Furthermore, the Company's bank credit agreement presently prohibits the payment of cash dividends. The payment of cash dividends, if any, in the future is within the discretion of the Company's Board of Directors and will depend upon the Company's earnings, if any, capital requirements, financial condition, credit agreements and other relevant factors. See "Dividend Policy."

THE COMPANY

Accredo provides specialized contract pharmacy and related services beneficial to patients with certain costly, chronic diseases. Accredo's business was founded in 1985 by Le Bonheur Health Systems, Inc., the former parent of a not-for-profit children's hospital in Memphis, Tennessee ("Le Bonheur"). Le Bonheur operated the business through its subsidiary, Southern Health Systems, Inc. ("SHS"), and through Nova Factor, Inc., one of four subsidiaries of SHS ("Nova Factor"). In May 1996, Accredo (formerly known as Nova Holdings, Inc.) was formed to acquire SHS and Nova Factor following the divestiture by SHS of all of its subsidiaries other than Nova Factor. Accredo continues to own SHS as a wholly owned subsidiary, and SHS continues to own Nova Factor as a wholly owned subsidiary. In June 1997, Accredo acquired all of the outstanding stock of Hemophilia Health Services, Inc. (formerly known as Horizon Health Systems, Inc.) ("HHS"), which became and continues to be a wholly owned subsidiary of Accredo. See "Risk Factors--Joint Venture and Acquisition Risks" and Note 3 of Notes to the Consolidated Financial Statements of the Company.

The Company's principal executive offices are located at 1640 Century Center Parkway, Suite 101, Memphis, Tennessee 38134, and its telephone number is (901) 385-3688.

USE OF PROCEEDS

The net proceeds to the Company from the sale of the 3,000,000 shares of Common Stock offered hereby at an assumed initial public offering price of $16.00 per share, after deducting underwriting discounts and commissions and estimated offering expenses payable by the Company, are estimated to be $43,140,000 ($49,836,000 if the Underwriters' over-allotment option is exercised in full).

The Company expects to use the net proceeds it receives from the Offering, and possibly together with other available Company funds, as follows: (i) approximately $11.2 million will be used to prepay in full all principal and accrued interest on the Company's outstanding Senior Subordinated Notes; (ii) approximately $31.4 million will be used to redeem all outstanding shares of Series A Preferred Stock, including all accrued dividends thereon; and (iii) the balance of the net proceeds, if any, will be used for working capital and other general corporate purposes, including possible acquisitions. Pending such uses, the net proceeds will be invested in short term, investment grade, interest bearing obligations. The Company from time to time considers various acquisition proposals, but currently has no commitments or agreements with respect to any material acquisitions.

The Senior Subordinated Notes bear interest at 10.0% per annum and mature on June 1, 2004. The Series A Preferred Stock accrues dividends at an annual rate of $8.00 per share. Such dividends are cumulative and accrue from the date of issue. The mandatory redemption date of the Series A Preferred Stock is May 31, 2004.

DIVIDEND POLICY

The Company has never declared or paid any cash dividends on its Common Stock. The Company intends to retain any future earnings to finance the growth and development of its business and therefore does not anticipate paying any cash dividends in the forseeable future. The payment of cash dividends in the future will be at the discretion of the Board of Directors and will depend upon factors such as the Company's earnings levels, capital requirements, financial condition and other factors deemed relevant by the Board of Directors. There can be no assurance that the Company will pay any dividends in the future.

CAPITALIZATION

The following table sets forth as of December 31, 1998 (i) the actual capitalization of the Company and (ii) the pro forma capitalization of the Company as adjusted to give effect to (a) the exchange by WCAS VII of 1,100,000 shares of Common Stock for 1,100,000 shares of Non-Voting Common Stock pursuant to the Recapitalization and (b) the sale by the Company of 3,000,000 shares of Common Stock in the Offering at an assumed initial public offering price of $16.00 per share and the application of the estimated net proceeds therefrom (after deducting underwriting discounts and commissions and estimated offering expenses payable by the Company). This table should be read in conjunction with the Company's Consolidated Financial Statements and Notes thereto included elsewhere in this Prospectus.

<TABLE>
<CAPTION>

	DECEMBER 31, 1998	
<S>	<C> ACTUAL	<C> PRO FORMA AS ADJUSTED
	(IN THOUSANDS) (UNAUDITED)	
Long-term notes payable	$ 27,498	$ 27,498
Senior Subordinated Notes payable	9,040	--
Mandatorily redeemable cumulative preferred stock, at redemption amount, 300,000 shares authorized, and 255,361 shares issued and outstanding	30,814	--
Stockholders' equity:		
Undesignated Preferred Stock, 5,000,000 shares authorized, no shares issued	--	--
Non-Voting Common Stock, $.01 par value; 2,500,000 shares authorized; no shares issued and outstanding, actual; 1,100,000 shares issued and outstanding, pro forma as adjusted	--	11
Common Stock, $.01 par value; 30,000,000 shares authorized; 5,625,587 shares issued and outstanding, actual; 7,525,587 shares issued and outstanding, pro forma as adjusted(1)	56	75
Additional paid-in capital	13,852	56,962
Retained earnings (deficit)(2)	--	(1,303)
Total stockholders' equity	13,908	55,745
Total capitalization	$ 81,260	$ 83,243

</TABLE>

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(1) Excludes 698,214 shares of Common Stock reserved for future stock awards under the Company's stock option and employee stock purchase plans and 900,786 shares of Common Stock issuable upon the exercise of outstanding options as of December 31, 1998 at a weighted average exercise price of $3.79 per share.

(2) The reduction in pro forma retained earnings is related to the extraordinary charge for unamortized Original Issue Discount associated with the early extinguishment of the Company's Senior Subordinated Notes Payable with part of the Offering proceeds. At December 31, 1998, the Original Issue Discount charge associated with these Notes was approximately $1,303,000, net of income taxes of $775,000.

DILUTION

As of December 31, 1998, the Company's net deficit in tangible book value was ($37.8 million), or $(6.72) per share of Common Stock. Net deficit in tangible book value per share represents the amount of the Company's total tangible assets, less total liabilities and mandatorily redeemable cumulative preferred stock, divided by the number of shares of Common Stock outstanding. After giving effect to the sale by the Company of 3,000,000 shares of Common Stock in the Offering at an assumed initial public offering price of $16.00 per share and after deducting underwriting discounts and commissions and estimated offering expenses payable by the Company, the pro forma net tangible book value of the Company as of December 31, 1998 would have been approximately $4.0 million, or $.47 per share. This represents an immediate increase in net tangible book value of $7.19 per share to existing stockholders and an immediate dilution in net tangible book value of $15.53 per share to new investors. The following table illustrates this per share dilution:

Assumed initial public offering price per share		$ 16.00
Net deficit in tangible book value per share before the Offering(1)	$ (6.72)	
Increase per share attributable to new investors	7.19	
Pro forma net tangible book value per share after the Offering(1)		.47
Dilution per share to new investors(2)		$ 15.53

The following table summarizes, on a pro forma basis as of December 31, 1998, the differences between the existing stockholders and the new investors with respect to the number of shares of Common Stock purchased from the Company, the total consideration paid to the Company and the average price per share paid (based upon an assumed initial public offering price of $16.00 per share):

	SHARES PURCHASED		TOTAL CONSIDERATION		AVERAGE PRICE
	NUMBER	PERCENT	AMOUNT	PERCENT	PER SHARE
Existing stockholders(1)	5,625,587	65.2%	$18,428,763	27.7%	$ 3.28
New investors	3,000,000	34.8	48,000,000	72.3	16.00
Total	8,625,587	100.0%	$66,428,763	100.0%	

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(1) Excludes 698,214 shares of Common Stock reserved for future stock awards under the Company's stock option and employee stock purchase plans and 900,786 shares of Common Stock issuable upon the exercise of outstanding options as of December 31, 1998 at a weighted average exercise price of $3.79 per share. To the extent that options are exercised, there could be further dilution to new investors.

(2) Dilution per share to new investors is determined by subtracting pro forma net tangible book value per share after the Offering from the assumed initial public offering price per share. Dilution per share to new investors will be $14.82 if the Underwriters' over-allotment option is exercised in full.

SELECTED FINANCIAL DATA
(IN THOUSANDS, EXCEPT PER SHARE DATA)

The following tables summarize certain selected financial data, which are qualified by and should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Predecessor's and the Company's Financial Statements and the Notes thereto included elsewhere in this Prospectus. The selected financial data with respect to (a) Nova Factor (Predecessor) as of and for the fiscal years ended June 30, 1994 and 1995, and as of May 31, 1996 and for the period July 1, 1995 through May 31, 1996, and (b) the Company as of June 30, 1996 and for the period from inception (May 24, 1996) through June 30, 1996, and as of and for the fiscal years ended June 30, 1997 and 1998 has been derived from the audited financial statements of the Predecessor and the Company. The selected financial data at December 31, 1998 and for the six months ended December 31, 1997 and 1998 has been derived from the unaudited financial statements of the Company, which in the Company's opinion, include all adjustments (consisting of only normal recurring adjustments) necessary for a fair presentation of the information set forth therein. The information set forth below is not necessarily indicative of the results of future operations.

<TABLE>
<CAPTION>

	PREDECESSOR(1)			COMPANY(1)			
	YEARS ENDED JUNE 30,		JULY 1, 1995 THROUGH MAY 31,	MAY 24, 1996 (INCEPTION) THROUGH JUNE 30,	YEARS ENDED JUNE 30,		SIX MONTHS ENDED DECEMBER 31,
	1994	1995(2)	1996	1996	1997	1998	1997
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
STATEMENTS OF OPERATIONS DATA:							
Revenues:							
Net patient service revenue	$ 5,442	$ 71,513	$ 68,585	$ 6,647	$ 106,143	$ 170,002	$ 80,367
Other revenue	756	6,710	6,346	597	8,049	9,806	4,680
Equity in net income (loss) of joint ventures	126	646	(139)	49	1,017	1,150	539
Total revenues	6,324	78,869	74,792	7,293	115,209	180,958	85,586
Operating expenses:							
Cost of services	4,016	68,273	65,867	6,450	101,080	154,046	73,087
General and administrative	694	2,714	2,753	627	5,939	12,489	5,729
Bad debts	74	1,322	1,860	251	2,977	3,165	1,582
Depreciation and amortization	11	76	104	456	4,877	3,861	1,911
Corporate overhead allocation(3)	413	1,900	4,206	--	--	--	--
Total operating expenses	5,208	74,285	74,790	7,784	114,873	173,561	82,309
Operating income (loss)	1,116	4,584	2	(491)	336	7,397	3,277
Interest expense, net	--	943	266	106	984	3,552	1,781
Income (loss) before income taxes	1,116	3,641	(264)	(597)	(648)	3,845	1,496
Income tax expense (benefit)	428	1,387	(72)	(28)	1,502	2,420	1,067
Net income (loss)	$ 688	$ 2,254	$ (192)	(569)	(2,150)	1,425	429
Mandatorily redeemable cumulative preferred stock dividends				(170)	(2,043)	(2,043)	(1,021)
Net income (loss) attributable to common stockholders				$ (739)	$ (4,193)	$ (618)	$ (592)
Net income (loss) per share attributable to common stockholders--diluted(4)				$ (.14)	$ (.82)	$ (.11)	$ (.11)
Weighted average shares and dilutive equivalents outstanding--diluted				5,107	5,418	6,041	5,852

<CAPTION>

	JUNE 30,		MAY 31,	JUNE 30,			DECEMBER 31,
	1994	1995	1996	1996	1997	1998	1997
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
BALANCE SHEET DATA:							
Cash and cash equivalents	$ 572	$ 645	$ 1,995	$ 3,576	$ 3,676	$ 5,087	$ 2,345
Working capital	1,234	13,523	1,148	1,384	16,894	23,377	21,797
Total assets(5)	4,135	44,808	27,538	72,036	113,309	114,049	120,134
Long-term debt	--	4,000	--	--	35,195	36,418	37,778
Mandatorily redeemable cumulative							

preferred stock	--	--	--	25,706	27,749	29,792	28,771
Stockholders' equity	1,476	11,315	3,327	14,583	12,790	12,801	12,698

<CAPTION>

	1998
<S>	<C>
STATEMENTS OF OPERATIONS DATA:	
Revenues:	
Net patient service revenue	$ 113,748
Other revenue	5,647
Equity in net income (loss) of joint ventures	631
Total revenues	120,026
Operating expenses:	
Cost of services	101,909
General and administrative	8,391
Bad debts	2,284
Depreciation and amortization	1,986
Corporate overhead allocation(3)	--
Total operating expenses	114,570
Operating income (loss)	5,456
Interest expense, net	1,730
Income (loss) before income taxes	3,726
Income tax expense (benefit)	1,863
Net income (loss)	1,863
Mandatorily redeemable cumulative preferred stock dividends	(1,021)
Net income (loss) attributable to common stockholders	$ 842
Net income (loss) per share attributable to common stockholders--diluted(4)	$ .14
Weighted average shares and dilutive equivalents outstanding--diluted	6,214

	1998
<S>	<C>
BALANCE SHEET DATA:	
Cash and cash equivalents	$ 1,636
Working capital	25,470
Total assets(5)	129,648
Long-term debt	36,538
Mandatorily redeemable cumulative preferred stock	30,814
Stockholders' equity	13,908

</TABLE>

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(1) The Company was incorporated on May 24, 1996. On May 31, 1996, the Company acquired SHS, a holding company, and its wholly-owned subsidiary, Nova Factor (the "Predecessor"). Since the Company was newly formed at May 24, 1996, and because the Predecessor had been in existence for several years, the Company is considered the successor to the Predecessor's operations. The balance sheet data of the Predecessor represents the historical cost basis of the Predecessor's assets and liabilities prior to its acquisition by the Company. The acquisition of the Predecessor by the Company resulted in a new basis of accounting such that the Predecessor's assets and liabilities were recorded at their fair value in the Company's consolidated balance sheet upon consummation of the acquisition. Additionally, the Company acquired HHS on June 1, 1997. Accordingly, the Selected Financial Data are not strictly comparable for the periods presented. See Notes 1 and 3 of Notes to the Company's Consolidated Financial Statements.

(2) On July 1, 1994, the Predecessor was assigned contractual rights from a subsidiary of SHS relating to the distribution of certain drugs.

(3) The Predecessor has been allocated expenses for certain services provided by its parent, SHS, including cash management, tax reporting, risk management and executive management services. Charges for these services were based upon a general allocation methodology determined by SHS (used to allocate all corporate overhead expenses to SHS subsidiaries), and were not necessarily allocated based on specific identification of expenses. Management believes the allocation methodology is reasonable. See Note 6 of Notes to the Nova Factor, Inc. Financial Statements.

(4) Historical diluted loss per share for the years ended June 30, 1996, 1997 and 1998 and the six month period ended December 31, 1997 have been calculated using the same denominator as used for basic loss per share because the inclusion of dilutive securities in the denominator would have an anti-dilutive effect.

(5) In May 1996, the Predecessor settled various intercompany accounts with subsidiaries of SHS.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

THE FOLLOWING DISCUSSION AND ANALYSIS SHOULD BE READ IN CONJUNCTION WITH "SELECTED FINANCIAL DATA" AND THE PREDECESSOR'S AND THE COMPANY'S FINANCIAL STATEMENTS AND THE NOTES THERETO INCLUDED ELSEWHERE IN THIS PROSPECTUS. THE DISCUSSION IN THIS PROSPECTUS CONTAINS CERTAIN FORWARD-LOOKING STATEMENTS THAT INVOLVE RISKS AND UNCERTAINTIES, SUCH AS STATEMENTS OF THE COMPANY'S PLANS, OBJECTIVES, EXPECTATIONS AND INTENTIONS. THE CAUTIONARY STATEMENTS MADE IN THIS PROSPECTUS SHOULD BE READ AS BEING APPLICABLE TO ALL FORWARD-LOOKING STATEMENTS WHEREVER THEY APPEAR IN THIS PROSPECTUS. THE COMPANY'S ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE DISCUSSED HERE. FACTORS THAT COULD CAUSE OR CONTRIBUTE TO SUCH DIFFERENCES INCLUDE THOSE DISCUSSED IN "RISK FACTORS," AS WELL AS THOSE DISCUSSED ELSEWHERE HEREIN.

OVERVIEW

Accredo provides specialized contract pharmacy and related services for the treatment of patients with certain costly, chronic diseases. The Company derives revenues primarily from the sale of biotechnology drugs to patients. Historically, the majority of the Company's revenues have been derived from products and services provided with respect to four diseases: Gaucher Disease, hemophilia, Multiple Sclerosis and growth hormone-related disorders. The products provided by the Company are purchased directly from biotechnology drug manufacturers pursuant to preferred relationship agreements in the case of Gaucher Disease, Multiple Sclerosis, and growth hormone-related disorders and purchase agreements in the case of hemophilia. Approximately 39%, 29% and 6% of the Company's total revenues for the six-month period ended December 31, 1998 and 46%, 23% and 7% of total revenues in fiscal year 1998 were generated from sales and services provided with respect to Gaucher Disease, Multiple Sclerosis and growth hormone-related disorders, respectively, and which sales and services were (and will continue to be) dependent upon the Company's preferred relationships with Genzyme, Biogen and Genentech, respectively. Sales and services provided with respect to hemophilia represented approximately 23% of the Company's total revenues for the six-month period ended December 31, 1998 and for fiscal year 1998.

The Company's preferred relationship agreements describe certain services to be provided by the Company, including contract pharmacy, information, clinical, reimbursement and customized delivery services. The agreements generally limit the Company's ability to supply competing drugs during (and in some cases for up to five years after) the term of the agreement, allow the manufacturer to distribute directly or through other parties, are generally short term and may be cancelled by either party, without cause, upon between 60 and 90 days prior notice. The agreements vary in level of exclusivity and scope of services provided. The Company typically purchases products at prices below the manufacturers' average wholesale sales prices, and the Company's resulting contribution margins vary for each product line. Pricing is customized to reflect specific services to be provided by Accredo and is subject to periodic adjustments to reflect changing market conditions.

The Company recognizes revenue at the time the biotechnology drug is dispensed or when the contractual service has been performed. While the Company may experience some revenue changes from price fluctuations on its existing product lines, its revenue growth will depend principally on the introduction of new drugs and to a lesser extent on volume growth in existing drug lines. In May 1996, the Company entered into a preferred relationship with Biogen and initiated sales and services with respect to Avonex-Registered Trademark- for the treatment of Multiple Sclerosis. In August 1998, the Company entered into a preferred relationship with Centocor and in October 1998 initiated sales and services with respect to Remicade-TM- for the treatment of Crohn's Disease. In addition, the Company has expanded its relationship with Genzyme by initiating sales and services with respect to Thyrogen-Registered Trademark- (thyrotropin alfa for injection) a therapeutic hormone substitute for use in diagnostic and monitoring indications for thyroid cancer patients and is awaiting contract formalization. Although the introduction of new drugs is dependent on the regulatory approval process, management believes the pipeline of biotechnology drugs for which the Company's services may be utilized will continue to expand.

In response to growing demand, the Company has expanded its existing relationships with biotechnology manufacturers through the development of new or complementary services that fit the specialized needs of the manufacturer and the patients they serve. For example, the Company has recently implemented a referral triage service that refers patients to the appropriate provider based on the patients insurance provider network. This service helps the manufacturers increase market penetration by obtaining access to patients regardless of whether the Company is able to act as the provider. Although the revenue received from the referral triage service is not material, the referral triage service and the other complimentary services have provided an additional source of revenue for the Company in fiscal years 1998 and 1997, and management believes that the need for additional services will continue to expand and will constitute an increasing percentage of the Company's revenues in the future. See "Business--Services."

In addition to new services, Accredo may also grow through strategic acquisitions and joint ventures. The acquisition of HHS in June 1997 enabled the Company to significantly increase its presence in the hemophilia market. Subsequent to the acquisition, the Company consolidated its existing hemophilia operations into HHS to take advantage of volume purchasing discounts, disease management systems and increased access to certain state Medicaid and managed care relationships.

Accredo has five joint venture agreements with various medical centers (or their affiliates) in which the Company owns 50% or less of the venture. Many of the Company's patient populations have diseases that are discovered before or during adolescence and require on-going care from physician specialists, many of whom are based at pediatric, academic and other acute care medical centers. To date, these ventures have primarily derived revenues from the treatment of patients with hemophilia and growth hormone-related disorders. The Company and its joint venture partners share profits and losses in equal proportion to their respective equity ownership. The Company accounts for its interests in the net income or loss in its joint ventures under the equity method of accounting. The Company's equity interest in the net income of these joint ventures represented approximately 17% and 30%, of the Company's income before income taxes for the six-month period ended December 31, 1998 and for fiscal year 1998, respectively. In addition to joint venture relationships, the Company has management agreements with three medical centers (or their affiliates) for the provision of specialized contract pharmacy services. The Company receives a management fee for these services which is classified as other revenue.

Cost of services include drug acquisition costs, pharmacy and warehouse personnel costs, freight and other direct costs associated with the delivery of the products and costs of clinical services provided. General and administrative expenses include the personnel costs of the reimbursement, sales, marketing, administrative and support staffs as well as corporate overhead and other general expenses. Bad debts include the Company's provision for patient accounts receivable which prove to be uncollectable after routine collection efforts have been exhausted. The Company typically hires personnel and incurs legal, recruiting, marketing and other expenses in anticipation of the commercial launch of a new biotechnology drug. In certain instances, a portion of these expenses are reimbursed to the Company by the biotechnology drug manufacturer. The Company historically has not capitalized any of these start up expenses. Amortization expense as a result of intangible assets identified in the acquisitions of Nova Factor in May 1996 and HHS in June 1997 decreased significantly in fiscal 1998 compared to fiscal 1997 due to the expiration of the useful lives of intangible assets assigned to acquired agreements with drug manufacturers and medical centers. See Notes 2 and 3 to the Company's consolidated financial statements.

Due to the increasing sensitivity to drug cost within governmental and private payors, the Company is continuously susceptible to reimbursement and operating margin pressures. In recent years, pharmacy benefit managers and other private payors have aggressively attempted to discount their reimbursement rates for the Company's products. While this aggressive discounting has resulted in some reduced margins for the Company's services, its preferred agreements with biotechnology manufacturers typically provide for terms which allow the Company to compensate for much of these discounts through negotiated adjustments in product acquisition cost. These relationships have allowed the Company to remain price competitive while maintaining

relatively stable product margins in recent quarters. See "Risk Factors--Dependence on Payors and Reimbursement Related Risks."

RESULTS OF OPERATIONS

The following table sets forth for the periods indicated, the percentages of total revenues represented by the respective financial items:

<TABLE>
<CAPTION>

	MAY 24, 1996 (INCEPTION) THROUGH JUNE 30, 1996	YEARS ENDED JUNE 30, 1997	YEARS ENDED JUNE 30, 1998	SIX MONTHS ENDED DECEMBER 31, 1997	SIX MONTHS ENDED DECEMBER 31, 1998
<S>	<C>	<C>	<C>	<C>	<C>
Revenues:					
Net patient service revenue	91.1%	92.1%	94.0%	93.9%	94.8%
Other revenue	8.2	7.0	5.4	5.5	4.7
Equity in net income of joint ventures	0.7	0.9	0.6	0.6	0.5
Total revenues	100.0	100.0	100.0	100.0	100.0
Operating expenses:					
Cost of services	88.5	87.7	85.1	85.4	84.9
General and administrative	8.6	5.2	6.9	6.7	7.0
Bad debts	3.4	2.6	1.8	1.8	1.9
Depreciation and amortization	6.2	4.2	2.1	2.2	1.6
Total operating expenses	106.7	99.7	95.9	96.1	95.4
Operating income (loss)	(6.7)	0.3	4.1	3.9	4.6
Interest expense, net	1.5	0.9	2.0	2.1	1.5
Income (loss) before income taxes	(8.2)	(0.6)	2.1	1.8	3.1
Income tax expense (benefit)	(0.4)	1.3	1.3	1.3	1.6
Net income (loss)	(7.8)%	(1.9%	0.8%	0.5%	1.5%

</TABLE>

SIX MONTHS ENDED DECEMBER 31, 1998 COMPARED TO SIX MONTHS ENDED DECEMBER 31, 1997.

REVENUES. Total revenues increased from $85.6 million to $120.0 million, or 40%, from the six-months ended December 31, 1997 to the six months ended December 31, 1998. Approximately, $16.7 million, or 48%, of this increase was attributable to the increased sales volume of Avonex-Registered Trademark-. Approximately $7.8 million, or 23%, of this increase was attributed to the increased hemophilia revenue associated with the increased patient volume and wholesale sales. Cerezyme-Registered Trademark- and Ceredase-Registered Trademark- drug sales increased approximately $5.1 million, or 15% of the revenue increase, as a result of increased patient volume. The remaining $4.8 million, or 14%, of the revenue increase was attributable primarily to the increased sales volume of growth hormone, service fees associated with the sales of Ceredase-Registered Trademark- and Cerezyme-Registered Trademark- and the increased sales volume of other ancillary drugs the Company dispenses as part of the patient's primary therapy or under contractual obligations within certain managed care contracts.

COST OF SERVICES. Cost of services increased from $73.1 million to $101.9 million, or 39%, from the six months ended December 31, 1997 to the six months ended December 31, 1998. This increase was commensurate with the increase in sales volume referred to above. As a percentage of revenues, cost of services decreased from 85.4% to 84.9% from the six months ended December 31, 1997 to the six months ended December 31, 1998 primarily as a result of an increase in revenue from drugs with lower acquisition costs as a percentage of revenue.

GENERAL AND ADMINISTRATIVE. General and administrative expenses increased from $5.7 million to $8.4 million, or 47%, from the six months ended December 31, 1997 to the six months ended December 31, 1998. This increase was primarily the result of increased salaries and benefits associated with the expansion of the Company's reimbursement, sales, marketing, administrative and support staffs in anticipation of existing product line revenue growth and new product line launches. General and administrative expenses represented 6.7% and 7.0% of revenues for the six months ended December 31, 1997 and 1998, respectively.

BAD DEBTS. Bad debts increased from $1.6 million to $2.3 million from the six-month period ended December 31, 1997 to the six-month period ended December 31, 1998. As a percentage of revenue, bad debt expense increased from 1.8% to 1.9% from the six-month period ended December 31, 1997 to the six-month period

ended December 31, 1998 primarily as a result of increased bad debt provision associated with certain hemophilia sales.

DEPRECIATION AND AMORTIZATION. Depreciation expense increased from $196,000 to $270,000 from the six-month period ended December 31, 1997 to the six-month period ended December 31, 1998 as a result of purchases of property and equipment associated with the Company's revenue growth and expansion of its leasehold facility improvements. Amortization expense associated with the goodwill and other intangible assets did not change from the six-month period ended December 31, 1997 to the six-month period ended December 31, 1998.

INTEREST EXPENSE, NET. Interest expense, net, decreased from $1.78 million to $1.73 million for the six months ended December 31, 1997 as compared to the six months ended December 31, 1998 due to lower current interest rates and margin rates payable under the Company's existing Loan and Security Agreement with its lenders (the "Credit Agreement").

INCOME TAX EXPENSE. The Company's effective tax rate decreased from 71.3% to 50.0% from the six months ended December 31, 1997 to the six months ended December 31, 1998 as a result of the increase in income before taxes while nondeductible amortization expense remained constant. The difference between the recognized tax rate and the statutory tax rate was primarily attributed to approximately $1,230,000 of nondeductible amortization expense for each period and state income taxes.

FISCAL YEAR ENDED JUNE 30, 1998 COMPARED TO FISCAL YEAR 1997

REVENUES. Total revenues increased from $115.2 million to $181.0 million, or 57%, from fiscal 1997 to fiscal 1998. Approximately $25.1 million, or 38%, of this increase was attributed to increased sales volume of Avonex-Registered Trademark-, which was launched in May 1996. Approximately $30.0 million, or 46%, of the increase was attributed to the increased hemophilia revenue associated with the acquisition of HHS in June 1997 and increased patient volume. The remaining $10.7 million, or 16%, of the revenue increase was attributable primarily to growth in the Company's Ceredase-Registered Trademark- and Cerezyme-Registered Trademark- drug sales and associated service fees. The Company's equity in net income of joint ventures increased from approximately $1.0 million to approximately $1.2 million from fiscal 1997 to fiscal 1998.

COST OF SERVICES. Cost of services increased from $101.1 million to $154.0 million, or 52%, from fiscal 1997 to fiscal 1998. This increase was attributable primarily to the expanded revenue volume of Avonex-Registered Trademark-, hemophilia clotting factor and Ceredase-Registered Trademark- and Cerezyme-Registered Trademark- along with personnel and other direct expenses associated with this growth. As a percentage of revenues, cost of services decreased from 87.7% to 85.1% from fiscal 1997 to fiscal 1998 primarily as a result of an increase in revenue from drugs with lower acquisition costs as a percentage of revenue.

GENERAL AND ADMINISTRATIVE. General and administrative expenses increased from $5.9 million to $12.5 million, or 112%, from fiscal 1997 to fiscal 1998. Approximately $4.2 million, or 66%, of this increase was associated with the acquisition of HHS in June 1997. The remaining $2.4 million of this increase was primarily the result of increased salaries and benefits associated with the expansion of the Company's reimbursement,

sales, marketing, administrative and support staffs in anticipation of revenue growth and new strategic sales, marketing efforts and approximately $138,000 in compensation expense recognized primarily due to stock that was sold to a director at less than estimated fair value. As a percentage of revenues, general and administrative expenses increased from 5.2% to 6.9% from fiscal 1997 to fiscal 1998 primarily as a result of the acquisition of HHS which involves a more cost intensive service model than that of the Company's other drug therapies.

BAD DEBTS. Bad debts increased from $3.0 million to $3.2 million from fiscal 1997 to fiscal 1998. As a percentage of revenue, bad debt expense decreased from 2.6% to 1.8% from fiscal 1997 to fiscal 1998 primarily as a result of the increased percentage of the Company's revenues being reimbursed by prescription benefit managers and other payors which reduces the Company's exposure to the uncollectability of patient co-payments.

DEPRECIATION AND AMORTIZATION. Depreciation expense increased from $231,000

to $430,000 from fiscal 1997 to fiscal 1998. Of this increase, $94,000 was attributable to the assets acquired as a result of the acquisition of HHS in June 1997. The remaining increase is a result of approximately $992,000 of capital expenditures made in fiscal 1998 for the purchases of property and equipment associated with the Company's revenue growth and expansion of its leasehold facility improvements. Amortization expense decreased from $4.6 million in fiscal 1997 to $3.4 million in fiscal 1998. This decrease was primarily attributable to several significant contract intangibles that were fully amortized by the end of fiscal year 1997. Additional amortization expense was recognized as a result of the acquisition of HHS in June 1997, which resulted in approximately $24.4 million of goodwill and other intangible assets. Approximately $804,000 of additional amortization was attributable to HHS intangibles in fiscal year 1998. Amortization expense attributable to Nova Factor intangibles decreased from $4.6 million in fiscal 1997 to $2.5 million in fiscal 1998.

INTEREST EXPENSE, NET. Interest expense, net, increased from $984,000 to $3.6 million, from fiscal 1997 to fiscal 1998 primarily as a result of the issuance of $27.5 million of long-term notes payable and $10.0 million of Senior Subordinated Notes payable issued as part of the acquisition of HHS in June 1997. The Company generated interest income of approximately $169,000 in fiscal 1998 and $100,000 in fiscal 1997 resulting from cash management programs which utilized the Company's increased short-term excess cash balances.

INCOME TAX EXPENSE. The Company's effective tax rate decreased from over 100% to 62.9% from fiscal 1997 to fiscal 1998 as a result of increased income before income taxes while nondeductible amortization expense decreased substantially. The difference between the recognized effective tax rate and the statutory tax rate is primarily attributed to approximately $4.6 million and $2.5 million of nondeductible amortization expense in fiscal 1997 and 1998, respectively, and state income taxes.

PERIOD FROM INCEPTION (MAY 24, 1996) TO JUNE 30, 1996

Accredo was formed on May 24, 1996, for the purpose of acquiring SHS and its wholly owned subsidiary Nova Factor, the Company's predecessor. This acquisition was completed on May 31, 1996. Because the financial statements for the period from inception (May 24, 1996) to June 30, 1996 reflect only one month of the Company's operations, a comparison of the Company's financial statements for that period to the Company's financial statements for fiscal year 1997 would not be meaningful.

PERIOD FROM JULY 1, 1995 THROUGH MAY 31, 1996 (PREDECESSOR) COMPARED TO FISCAL YEAR 1995 (PREDECESSOR)

The results of operations for the period July 1, 1995 through May 31, 1996 (eleven months) and for the fiscal year ended June 30, 1995 (fiscal year 1995) are reflective of the operations of Nova Factor, the Company's predecessor. Due primarily to the differences in the length of the reporting periods, the comparison of the operating results may not be meaningful. In addition, the results of operations for these periods may not be indicative of the results of operations had the Predecessor been operated on a stand alone basis.

REVENUES. Total revenues were $74.8 million for the eleven-month period ended May 31, 1996, and were $78.9 million for fiscal year 1995.

COST OF SERVICES. Cost of services were $65.9 million for the eleven-month period ended May 31, 1996, and were $68.3 million for fiscal year 1995.

GENERAL AND ADMINISTRATIVE. General and administrative expenses were $2.8 million for the eleven-month period ended May 31, 1996, and were $2.7 million for fiscal year 1995.

BAD DEBTS. Bad debts were $1.9 million for the eleven-month period ended May 31, 1996, and were $1.3 million for fiscal year 1995.

DEPRECIATION EXPENSE. Depreciation expense was $104,000 for the eleven-month period ended May 31, 1996, and was $76,000 for fiscal year 1995.

CORPORATE OVERHEAD ALLOCATION. Corporate overhead allocation was $4.2 million for the eleven-month period ended May 31, 1996, and was $1.9 million for fiscal year 1995.

INTEREST EXPENSE, NET. Interest expense, net, was $266,000 for the eleven-month period ended May 31, 1996, and was $943,000 for fiscal year 1995.

INCOME TAX EXPENSE. The effective tax rate used to record the tax benefit for the eleven-month period ended May 31, 1996 was approximately 27%, and was approximately 38% for fiscal year 1995.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 1998, June 30, 1998 and 1997, the Company had working capital of $25.5 million, $23.4 million and $16.9 million, respectively. The increase in working capital for each period resulted principally from the increase in patient accounts receivable in connection with the Company's revenue growth. The Company's net cash used by operating activities was approximately $1.4 million for the six-month period ended December 31, 1998, while $1.9 million was provided by operating activities for the fiscal year ended June 30, 1998. This variance was due primarily to the timing of receivables, inventory purchases and payables resulting from the Company's continued growth. Net cash used in investing activities was $2.2 million for the six-month period ended December 31, 1998 and $967,000 for the fiscal year ended June 30, 1998. Such cash was primarily used to acquire a 50% interest in two California partnerships in November, 1998 and for the purchase of property and equipment during both periods.

For the period from inception (May 24, 1996) through June 30, 1996, the Company used cash in the amount of approximately $37.7 million to purchase the outstanding stock of SHS. In fiscal year 1997, the Company used cash in the amount of approximately $29.7 million to purchase the outstanding stock of HHS. During fiscal 1997, the Company's cash distributions from its joint ventures in excess of its equity in the net income from these joint ventures was $378,000. During the six months ended December 31, 1998 and the fiscal year ended June 30, 1998, the Company received cash distributions from its joint ventures of approximately $350,000 and $1.2 million, respectively, while its associated equity in the net income of these joint ventures increased approximately $631,000 and $1.2 million, respectively. In addition, a $150,000 capital contribution was also made to the two California partnerships during the six months ended December 31, 1998.

For the period from inception (May 24, 1996) to June 30, 1996, the Company received $40.0 million from the issuance of common and preferred stock. For the fiscal year ended June 30, 1997, the Company received approximately $27.5 million from the issuance of long-term notes payable and $10.0 million from the issuance of the Senior Subordinated Notes which were used to refinance approximately $7.2 million of long-term debt and to fund the acquisition of HHS. The Company issued 400,000 shares of Common Stock to the purchasers of the Senior Subordinated Notes. During fiscal year 1998, the Company elected to issue additional Senior Subordinated Notes of approximately $1.0 million which represented the accrued interest on the Senior Subordinated Notes then outstanding. The Company also received $500,004 and $207,000 from the sale of 83,334 and 35,000 shares of Common Stock during fiscal year 1998 and the six-month period ended December 31, 1998, respectively.

Historically, the Company has funded its operations and continued internal growth through cash provided by operations. The Company anticipates its capital expenditures for the year ending June 30, 1999 will consist primarily of additional leasehold improvements and equipment for the continuing expansion of the Company's leasehold to accommodate personnel necessary to manage the Company's growth. The Company is currently in the process of negotiating a lease for an additional 20,000 square feet of office and warehouse space. Since June 30, 1998, the Company has purchased or committed to purchase approximately $1,400,000 of furniture, equipment and leasehold improvements. Upon consummation of the Offering, the Company plans to redeem all outstanding shares of Series A Preferred Stock and retire the Senior Subordinated Notes. In connection with the retirement of debt with the Offering proceeds, the Company will incur an extraordinary charge of approximately $1.3 million net of tax to its operations in relation to early extinguishment of its debt. Further, the Company will supplement the net proceeds from the Offering as needed from other available Company funds to fully retire the Series A Preferred Stock and the Senior Subordinated Notes.

The Company has a $40.0 million revolving credit facility under the terms of its existing Credit Agreement, which will automatically increase to $60.0 million if the Offering results in net cash proceeds to the Company of at least $42,500,000. The credit facility includes a subfacility for letters of credit. The Credit Agreement contains a $20.0 million sublimit for working capital loans and letters of credit and is subject to a borrowing base limit that is based on the Company's cash flow. All outstanding principal and interest on loans made under the Credit Agreement is due and payable on December 1, 2001. Interest on loans under the Credit Agreement accrues at a variable rate index, at the Company's option, based on the prime rate or London InterBank Offerred Rate ("LIBOR") for one, two, three or six months (as selected by the Company), plus an applicable margin. The Company has entered into an interest rate swap agreement with NationsBank, N.A. to hedge against floating rate interest risk. The swap agreement relates to borrowings under the Credit Agreement of up to $25.0 million and expires on October 31, 2001. Accordingly, as of January 21, 1999, the effective interest rate on the first $25.0 million outstanding under the Credit Agreement was 7.0% per annum, and the effective interest rate on

borrowings in excess of $25.0 million under the Credit Agreement was 6.65% per annum. The Company's obligations under the Credit Agreement are secured by a lien on substantially all of the assets of the Company, including a pledge of all of the common stock of each direct or indirect wholly owned subsidiary of the Company. Each wholly owned subsidiary has also guaranteed all of the obligations of the Company under the Credit Agreement, which guarantee obligations are secured by a lien on substantially all of the assets of each such subsidiary.

The Credit Agreement contains operating and financial covenants, including requirements to maintain a certain debt to equity ratio and certain leverage and debt service coverage ratios. In addition, the Credit Agreement includes customary affirmative and negative covenants, including covenants relating to transactions with affiliates, use of proceeds, restrictions on subsidiaries, limitations on indebtedness, limitations on liens, limitations on capital expenditures, limitations on certain mergers, acquisitions and sales of assets, limitations on investments, prohibitions on payment of dividends and stock repurchases, and limitations on certain debt payments (including payment of subordinated indebtedness) and other distributions. The Credit Agreement also contains customary events of default, including certain events relating to changes in control of the Company. The Company is also a guarantor of a loan from NationsBank, N.A. made to Children's Hemophilia Services ("CHS"), a California general partnership in which the Company owns a 50% interest. This line of credit allows the partnership to borrow up to $1.5 million which is repayable in full on November 24, 2000. As of March 23, 1999, CHS had borrowed $720,000 against the line of credit.

While the Company anticipates its cash from operations, along with the short term use of the Credit Agreement and the net proceeds to be received from the Offering, will be sufficient to meet its internal operating requirements and growth plans for at least the next 12 months, the Company expects that additional funds may be required in the future to successfully continue its growth beyond that 12-month period or in the event that the Company grows more than expected within such period. The Company may be required to raise additional funds through sales of equity or debt securities or seek additional financing from financial institutions.

There can be no assurance, however, that financing will be available on terms that are favorable to the Company or, if obtained, will be sufficient for the Company's needs.

SELECTED QUARTERLY FINANCIAL RESULTS

The following table presents selected unaudited quarterly statements of operations items, and the percentages of total revenues represented by those respective items, for each of the ten quarters beginning July 1, 1996 and ending December 31, 1998. This information has been prepared on the same basis as the audited financial statements appearing elsewhere in this Prospectus, and includes all adjustments, consisting only of normal recurring adjustments, that the Company considers necessary for a fair presentation of the information when read in conjunction with the Company's Consolidated Financial Statements and Notes thereto appearing elsewhere in this Prospectus.

<TABLE>
<CAPTION>

	THREE MONTHS ENDED						
<S>	<C> SEPT. 30, 1996	<C> DEC. 31, 1996	<C> MAR. 31, 1997	<C> JUNE 30, 1997(1)	<C> SEPT. 30, 1997	<C> DEC. 31, 1997	<C> MAR. 31, 1998
<CAPTION>			($ IN THOUSANDS)				
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
STATEMENT OF OPERATIONS DATA:							
Total revenues	$ 24,544	$ 27,659	$ 28,538	$ 34,468	$ 40,886	$ 44,700	$ 44,813
Operating income	(287)	(116)	170	569	1,558	1,717	1,908
Income before income taxes	(498)	(292)	(3)	145	667	829	986
Net income	(798)	(658)	(390)	(304)	175	253	378
AS A PERCENTAGE OF TOTAL REVENUES:							
Total revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Operating income	(1.2)	(0.4)	0.6	1.7	3.8	3.8	4.3
Income before income taxes	(2.0)	(1.1)	--	0.4	1.6	1.9	2.2
Net income	(3.3)	(2.4)	(1.4)	(0.9)	0.4	0.6	0.8

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	JUNE 30, 1998	SEPT. 30, 1998	DEC. 31, 1998
<S>	<C>	<C>	<C>
STATEMENT OF OPERATIONS DATA:			
Total revenues	$ 50,559	$ 57,348	$ 62,678
Operating income	2,214	2,709	2,747
Income before income taxes	1,363	1,844	1,882
Net income	619	915	948
AS A PERCENTAGE OF TOTAL REVENUES:			
Total revenues	100.0%	100.0%	100.0%
Operating income	4.4	4.7	4.4
Income before income taxes	2.7	3.2	3.0
Net income	1.2	1.6	1.5

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(1) On June 1, 1997, the Company acquired all of the stock of HHS.

QUARTERLY FLUCTUATIONS AND SEASONALITY

The Company's results of operations historically have fluctuated on a quarterly basis and can be expected to continue to be subject to quarterly fluctuations. In particular, the Company typically increases its operating expenses in anticipation of the launch of a new drug, and if the new drug does not generate the levels of sales during the periods anticipated by management, the Company's results in that and future quarters could be adversely affected. Quarterly results can also fluctuate as a result of the timing of periodic adjustments to prices and other terms with the Company's drug suppliers, the accuracy of estimates of resources required for ongoing programs, the timing and integration of acquisitions, changes in regulations related to biotechnology companies, physician prescribing patterns, and general economic conditions, none of which can be adequately predicted by the Company. Quarterly operating results also fluctuate as a result of the annual renewal (on a calendar year basis) of deductible and co-payment requirements, thereby affecting patient ordering patterns in a manner that creates a seasonal reduction in revenue from existing drug programs for the Company's third fiscal quarter ending March 31. Quarterly results may also fluctuate as a result of the Company providing drugs, now or in the future, that treat seasonal illnesses. The Company believes that quarterly comparisons of its financial results may not necessarily be meaningful and should not be relied upon as an indication of future performance. In addition, fluctuations in quarterly results could affect the market price of the Common Stock in a manner unrelated to the longer term operating performance of the Company.

THE YEAR 2000 ISSUE

INTRODUCTION. The term "year 2000 issue" is a general term used to describe the various problems that may result from the improper processing of dates and date-sensitive calculations by computers and other machinery as the year 2000 is approached and reached. These problems arise from hardware and software

unable to distinguish dates in the "2000's" from dates in the "1900's" and from other sources such as the use of special codes and conventions in software that make use of a date field.

THE COMPANY'S STATE OF READINESS. The Company's efforts in addressing the year 2000 issue are focused in the following three areas: (i) implementing procedures to determine whether the Company's software systems and hardware platforms are year 2000 compliant; (ii) communicating with suppliers and third party payors to determine whether there will be any interruption in their systems that could affect the Company's ability to receive timely shipments of inventory or payment for services as a result of the year 2000 issue; and (iii) evaluating and making necessary modifications to other systems that contain imbedded chips, such as phone systems, which process dates and date sensitive material.

The Company is in the process of obtaining written verification from vendors to the effect that the Company's software applications and hardware platforms acquired from such vendors will correctly manipulate dates and date-related data as the year 2000 is approached and reached. By June 30, 1999, the Company expects to have completed upgrades on its pharmacy management systems, including its billing and accounts receivable systems, in order to address the year 2000 issue. Nevertheless, there can be no assurance that the software applications and hardware platforms on which the Company's business relies will correctly manipulate dates and date-related data as the year 2000 is approached and reached. Such failures could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company's business relies heavily upon its ability to obtain pharmaceuticals from a limited number of biotechnology manufacturers and from its ability to obtain reimbursement from third party payors, including Medicare and Medicaid. The Company is in the process of obtaining written verification from each of its suppliers, and certain significant third party payors, to determine whether there will be any interruption in the provision of pharmaceuticals or receipt of payment resulting from the year 2000 issue. The Company expects to complete this process by June 30, 1999. The Health Care Financing Administration ("HCFA"), which administers the Medicare and Medicaid programs, has stated that progress on its efforts to renovate, test and certify the systems operated by its contractors that process and pay Medicare claims have lead to its expectation of being ready on January 1, 2000 to process and pay claims. The failure of HCFA or any of the Company's other significant third party payors to remedy year 2000 related problems could result in a delay in the Company's receipt of payments for services which could have a material adverse impact on the Company's business, financial condition and results of operations. HCFA has also stated its concern about the readiness of fiscal intermediaries, carriers, providers and suppliers to prepare and submit claims in a year 2000 compliant format and moved from January 1, 1999 to April 5, 1999 the target date for submission of claims in HCFA's year 2000 compliant format. Furthermore, a delay in receiving pharmaceuticals from certain key biotechnology manufacturers could hinder the Company's ability to provide services to its customers which could have a material adverse impact on the Company's business, financial condition and results of operations.

The Company is aware that certain of its systems, such as phone systems, facsimile machines, heating and air conditioning, security systems and other non-data processing oriented systems may include imbedded chips which process dates and date sensitive material. These imbedded chips are both difficult to identify in all instances and difficult to repair; often, total replacement of the chips is necessary. The Company intends to perform an evaluation of its systems to determine whether the Company needs to repair or replace any chips to avoid year 2000 problems. Failure of the Company to identify or remediate any embedded chips (either on an individual or an aggregate basis) on which significant business operations depend, such as phone systems, could have a material adverse impact on the Company's business, financial condition and results of operations.

COSTS TO ADDRESS THE COMPANY'S YEAR 2000 ISSUES. Based on current information, the Company has budgeted $100,000 for the cost of repairing, updating or replacing software and equipment. Because additional funds may be required as a result of future findings, the Company is not currently able to estimate the final aggregate cost of addressing the year 2000 issue. The Company expects to fund the costs of addressing the year 2000 issue from cash flows resulting from operations and does not expect such costs to have a material effect on the financial condition of the Company or its results of operations.

RISKS PRESENTED BY YEAR 2000 ISSUES. The Company is still in the process of evaluating potential disruptions or complications that might result from year 2000 related problems. However, at this time the Company has not identified any specific business functions that will suffer material disruption as a result of year 2000 related events. It is possible, however, that the Company may identify business functions in the future that are specifically at risk of year 2000 disruption. The absence of any such determination at this point represents only the Company's current status of evaluating potential year 2000 related problems and facts presently known to the Company, and should not be construed to mean that there is no risk of year 2000 related disruption. Moreover, due to the unique and pervasive nature of the year 2000 issue, it is impracticable to anticipate each of the wide variety of year 2000 events, particularly outside of the Company, that might arise in a worst case scenario which might have a material adverse impact on the Company's business, financial condition and results of operations.

THE COMPANY'S CONTINGENCY PLANS. The Company intends to develop contingency plans for significant business risks that might result from year 2000 related events. Since the Company has not identified any specific business function that will be materially at risk of significant year 2000 related disruptions, and because a full assessment of the Company's risk from potential year 2000 failures is still in process, the Company has not yet developed detailed contingency plans specific to year 2000 problems. Development of these contingency plans is currently scheduled to occur before June 30, 1999 and as otherwise appropriate.

IMPACT OF INFLATION

Changes in prices charged by the biotechnology drug manufacturers for the drugs dispensed by the Company, along with increasing labor costs, freight and supply costs and other overhead expenses, affects the Company's cost of services and general and administrative expenses. Historically, the Company has been able to pass all, or a portion, of the effect of such increases to the biotechnology

drug manufacturers pursuant to negotiated adjustments made under its preferred distribution agreements. As a result, changes due to inflation have not had significant adverse effects on the Company's operations.

BUSINESS

OVERVIEW

Accredo provides specialized contract pharmacy and related services pursuant to agreements with biotechnology drug manufacturers relating to the treatment of patients with certain costly, chronic diseases. Because of the unique needs of these patients, biotechnology drug manufacturers have recognized the benefits of customized treatment programs to facilitate alternate site drug administration, ensure compliance with treatment regimens, provide reimbursement assistance and capture valuable clinical and patient demographic information. The Company addresses the needs of the manufacturers by providing specialized services that facilitate product launch and patient acceptance, including the collection of timely drug utilization and patient compliance information, patient education and monitoring through the use of written materials and telephonic consultation, reimbursement expertise and overnight drug delivery. The Company believes that its ability to accelerate market penetration and increase revenues for new biotechnology drugs makes it an attractive partner for drug manufacturers as evidenced by its preferred relationships with Genzyme, Biogen, Genentech and Centocor. While these relationships are not exclusive, the Company's preferred status generally involves a designation of the Company as a preferred or recommended provider of the manufacturer's drugs, direct marketing of the Company's services, customized pricing reflecting the Company's specialized services and flexibility in adjusting prices and other terms in the event of changed market conditions or service levels.

The Company has designed its specialty services to focus primarily on biotechnology drugs that: (i) are used on a recurring basis to treat chronic and potentially life threatening diseases; (ii) are expensive, with annual therapy costs generally ranging from $6,000 to $200,000 per patient; (iii) are administered through injection; and (iv) require temperature control or other specialized handling as part of their distribution process. The Company provides services that address the needs of patients with the following diseases: Gaucher Disease, a hereditary liver enzyme deficiency; hemophilia, a hereditary bleeding disorder; Multiple Sclerosis, a debilitating disease of the central nervous system; and growth hormone-related disorders. In August 1998 the Company entered into an agreement with Centocor to provide its services to patients with Crohn's Disease, a chronic inflammatory disease affecting the gastrointestinal tract. These diseases generally require life-long therapy, except for growth hormone-related disorders which typically require treatment for six to ten years.

INDUSTRY BACKGROUND

The pace of drug discovery has accelerated in recent years due to significant advances in disciplines such as molecular biology, genomics and high-throughput screening. As a result, opportunities to develop therapies for previously unmet needs are greater than ever before. The Company believes that biotechnology products represent the most expensive and rapidly growing part of the new drug pipeline. Unlike many traditional drugs, these products often possess specific characteristics which make utilization and compliance increasingly difficult. They are often composed of unstable proteins which must be taken by injection and require timely, temperature maintained distribution, dosage monitoring, and controlled inventory management. In addition, expert reimbursement management is crucial as a result of the high cost and significant support services associated with these products.

As a result of increasing competitive pressure to introduce new drugs to market quickly and the unpredictability of the approval and launch process for new drugs, many drug manufacturers have sought to preserve often limited internal resources by outsourcing various stages of product development. This has included discovery research by outsourcing genomics and screening functions and clinical development through the utilization of contract research organizations (CROs) and site management organizations (SMOs). This trend has also extended beyond development to product commercialization and launch through the outsourcing of manufacturing, sales and marketing, product detailing, pharmacy and distribution services and patient support programs.

When addressing chronic diseases, the challenges facing biotechnology drug manufacturers are often heightened by small patient populations, increased difficulties in ensuring patient compliance and persistence

with treatment programs, the need to realize a return on investment prior to the expiration of any patent or orphan drug status exclusivity and the onset of significant competition. In addition, many traditional distribution channels

including wholesalers, hospitals, physicians, pharmacies and pharmacy benefit managers do not want to maintain an inventory of expensive biotechnology products and lack the specialized knowledge often needed to manage chronic disease patients. The Company believes that it is well positioned to take advantage of a large drug development pipeline and an increasing trend toward specialized outsourcing by the biotechnology drug industry.

ACCREDO STRATEGY

Accredo's objective is to be the leading provider of specialized contract pharmacy and related services. Key elements of the Company's strategy include:

EXPAND NUMBER OF CHRONIC DISEASES SERVED. The Company closely monitors biotechnology drugs in development and seeks to increase the number of chronic diseases for which it provides its services by developing new relationships with additional manufacturers and leveraging its existing relationships to include new drugs and new FDA indications for existing drugs. For example, in August 1998 the Company established a new preferred relationship with Centocor in which the Company provides its specialized services with respect to Remicade-TM- for use in treating patients with Crohn's Disease and has expanded its relationship with Genzyme by initiating sales and services with respect to Thyrogen-Registered Trademark- a therapeutic hormone substitute for use in diagnostic and monitoring indications for thyroid cancer patients.

LEVERAGE EXPERTISE TO EXPAND SERVICE OFFERINGS. The Company continually seeks to develop new or complementary services that meet the specialized needs of biotechnology drug manufacturers and the patients who use their products. The Company believes that it is uniquely positioned to identify these needs and develop customized solutions through its close relationships with leading drug manufacturers. For example, the Company recently implemented a referral triage service to provide a convenient single source for prescribing physicians and help manufacturers increase market penetration. The Company believes that biotechnology drug manufacturers will increasingly recognize the benefits of outsourcing product development, launch and specialized pharmacy services as the biotechnology market matures and competition increases.

ESTABLISH ADDITIONAL RELATIONSHIPS WITH MEDICAL CENTERS. The Company intends to pursue additional strategic relationships with medical centers through joint ventures and management contracts. Many of the Company's patient populations have diseases that are discovered before or during adolescence and require on-going care from physician specialists, who are often based at pediatric, academic or other acute care medical centers. By establishing strategic relationships with these centers, the Company believes it can obtain access to a large number of patients and introduce them to the Company's specialized services during the initial stages of their treatment program.

INCREASE NUMBER OF PAYOR CONTRACTS. The Company intends to pursue contracts with additional payors, including managed care companies and employers, in order to access and provide services to a greater number of patients. Because most third party payor beneficiaries are restricted to using pharmacy providers included in their plan's panel of providers, the Company is eligible to receive reimbursement only for services provided to patients who are enrolled in plans with which the Company maintains provider contracts. The Company maintains a dedicated team of sales and marketing personnel that work exclusively on pursuing additional payor relationships and has a variety of payor education programs aimed at increasing awareness of the Company's specialized services among private payors.

PURSUE ACQUISITIONS OF SIMILAR OR COMPLEMENTARY BUSINESSES. The Company intends to pursue acquisitions that offer attractive growth opportunities and that involve businesses that are similar to or that complement the Company's present operations. For example, in June 1997 the Company significantly expanded the scope of its hemophilia operations with the acquisition of HHS in Nashville, Tennessee and in November 1998 the

Company acquired a 50% interest in each of two California general partnerships that service a number of patients with hemophilia and growth hormone related disorders, respectively.

SERVICES

The Company believes that its specialized services make it an attractive partner for manufacturers of biotechnology drugs used in treating certain costly, chronic diseases and an attractive provider for patients with these diseases. These services include specialized contract pharmacy, clinical, reimbursement and delivery services.

CONTRACT PHARMACY SERVICES. The Company offers customized services to biotechnology drug manufacturers designed to meet specific needs that arise at various stages in the life cycles of their products. During the pre-launch stage of product development, the Company provides consulting services related to

strategic pricing decisions and the impact those decisions may have on private insurance and Medicaid and Medicare reimbursement policies. The Company also offers analyses and information to assist manufacturers in evaluating payor mix and pricing strategies for their new drugs. The Company will test a manufacturer's packaging to assess maintenance of product temperatures and to determine whether the packaging system will maintain product integrity during normal shipping conditions. In addition, the Company offers advice on ancillary injection and infusion supplies and assists in procuring supplies and customized packaging for infusion supply kits. The Company provides clinical protocols that assist nurses and caregivers in learning how to safely and effectively administer a drug, including aseptic techniques, supplies needed and infusion time required. The Company also has extensive experience with patient assistance programs for uninsured or underinsured patients and offers consulting services that assist manufacturers in determining appropriate admission criteria for such programs.

Following product launch, the Company offers: (i) clinical hotlines that allow the physician or patient caregiver to inquire about product usage, adverse drug reactions and other clinical questions; (ii) reimbursement hotlines for patients and health care professionals; (iii) support for manufacturers' patient assistance programs for patients without the financial ability to otherwise acquire needed drugs and services; (iv) replacement drug and supply programs that replenish patients' inventory of products or supplies that become damaged; (v) home care coordination programs that provide patient assistance in training, the identification of home care providers and the transfer of clinical information to all caregivers; and (vi) triage services that refer patients to the appropriate provider based on the patients' insurance provider network. When a drug manufacturer contracts with the Company to provide one or more of these services, such services (except for home care coordination programs) are made available to all patients utilizing that manufacturer's drug therapy, regardless of whether those patients obtain their drugs from the Company or from an alternative source. Results of the Company's interaction with patients (which is primarily via telephone) are coded and tracked to compile valuable information, including side effects, drug interactions, administration problems, supply issues, changes to new products, and reasons for therapy discontinuation and non-compliance. The Company will also report on adverse drug reactions, log the occurrence, and complete an initial preliminary report of the occurrence to assist manufacturers in completing adverse event reports in a timely manner. The Company can also create a wide variety of additional reports that can be custom tailored to meet specific manufacturers' needs. Examples of reports include sales by physician, sales by zip code, sales trending, first time patient orders, Medicaid and Medicare sales, inventory status and reasons for patient discontinuations. Due to the nature of the data it collects, the Company has established procedures designed to ensure compliance with laws regarding confidentiality of patient information.

CLINICAL SERVICES. At the initiation of service, the Company works with the patient and the patient's physician to implement the prescribed plan of care. Each patient is assigned to a team consisting of a pharmacist, a customer service representative and a reimbursement specialist. Generally, each patient's team members specialize only in that patient's disease and work only with payors and providers in that patient's geographic region. In order to assist patients with their complicated treatment program, the Company provides clinical consultation and education regarding the patient's disease and treatment program, helps patients set realistic expectations for their drug therapy, helps coordinate backup care in the event of an acute episode, provides

current information on advances in technology and treatment regimens, coordinates medication during travel and helps patients establish an inventory management and record keeping system. These services are provided through a variety of written materials and regular telephonic communication with patients. Due to their limited stability, the drugs currently handled by the Company are not mixed or reconstituted prior to shipment. Accordingly, the Company does not mix or reconstitute any pharmaceuticals. This makes the Company's patient education services particularly important for patients just beginning drug therapy because they generally must learn to reconstitute and administer products themselves. The Company maintains frequent communication with patients to monitor and encourage compliance with the prescribed plan of care and persistence in staying on therapy for the entire course of treatment. The Company also helps patients understand their medication and manage the potential side effects and adverse reactions that can occur so that patients are less likely to discontinue therapy. In addition, the Company assists patients and their families in coping with a variety of difficult social and emotional challenges presented by their disease, participates in national, state and local patient advocacy organizations, assists in the formation of patient support groups, advocates legislation to advance specific patient interests and publishes newsletters containing information relevant to its patients.

REIMBURSEMENT SERVICES. By focusing on specific chronic diseases, the Company has developed significant expertise in managing reimbursement issues related to the patient's condition and treatment program. Due to the long duration and high cost of therapy generally required to treat chronic disorders, the availability of adequate health insurance is a continual concern for

chronically ill patients and their families. Generally, the Company contacts the payor prior to each shipment to determine the patient's health plan coverage and the portion of costs that the payor will reimburse. The Company's reimbursement specialists review such issues as pre-certification or other prior approval requirements, lifetime limits, pre-existing condition clauses and the availability of special state programs. By identifying coverage limitations as part of its initial consultation, the Company can assist the patient in planning for alternate coverage, if necessary. From time to time, the Company negotiates with payors to facilitate or expand coverage for the chronic diseases served by the Company. In addition, the Company accepts assignment of benefits from numerous payors, which substantially eliminates the claims submission process for many patients.

DELIVERY SERVICES. The Company provides timely delivery of drugs and ancillary supplies directly to the patient or the patient's physician in packaging specially designed to maintain appropriate temperatures and which typically contains all of the supplies required for reconstitution and administration in the patient's home or in other alternate sites. Substantially all products are shipped from the Company's two primary pharmacy locations in Memphis and Nashville, Tennessee. The Company also maintains satellite pharmacy locations in Dallas-Ft. Worth, Texas and Birmingham, Alabama. The Company ships its products via FedEx and believes that its proximity to FedEx's principal "hub" location in Memphis provides the Company with a competitive advantage in meeting the time-sensitive needs of its patients.

DISEASE MARKETS AND MANUFACTURER RELATIONSHIPS

Currently, the Company provides its specialty services with respect to the following diseases:

GAUCHER DISEASE. Type I Gaucher Disease is the most common form of Gaucher Disease, affecting about 90% of all Gaucher patients. Type I Gaucher Disease is a seriously debilitating, sometimes fatal, genetic disorder caused by a deficiency of an important enzyme in the body called glucocerebrosidase ("GCR"). This deficiency results in the accumulation of the glucocerebroside lipid in the cells of organs in the body. The disease is characterized by an enlarged liver or spleen, anemia, bleeding problems, fatigue, bone and joint pain and other orthopedic complications such as repeated fractures and bone erosion. Genzyme's Ceredase-Registered Trademark- and Cerezyme-Registered Trademark- products are the only FDA approved products used for treating Gaucher Disease.

The Company (including former affiliates) has had a preferred relationship with Genzyme relating to Ceredase-Registered Trademark- since the commercial launch of Ceredase-Registered Trademark- in 1991 and relating to Cerezyme-Registered Trademark- since the commercial launch of Cerezyme-Registered Trademark- in 1994. Ceredase-Registered Trademark- is a modified form of human GCR which uses glycoprotein remodeling technology to target GCR to the cells where the lipid accumulation occurs. Cerezyme-Registered Trademark- is a recombinant form of

GCR which has been remodeled in a similar manner. Ceredase-Registered Trademark- and Cerezyme-Registered Trademark- are generally administered by intravenous infusion. Dosing frequencies vary, but a typical dosing regimen involves administration once every two weeks. The annual revenue to the Company during its 1998 fiscal year from patients receiving this therapy was predominantly within the range of $150,000 to $200,000 per patient depending on a patient's weight, stage in the therapy cycle and severity of condition. As part of its preferred relationship with Genzyme, the Company and Genzyme have entered into two agreements (the "Genzyme Agreements"), pursuant to which the Company dispenses Ceredase-Registered Trademark- and Cerezyme-Registered Trademark- in the United States and pursuant to which the Company provides various information and other services to Genzyme. The pricing of Ceredase-Registered Trademark- and Cerezyme-Registered Trademark- under the Genzyme Agreements, as well as the scope and pricing of services provided by the Company under such agreements, are subject to periodic adjustment. The Genzyme Agreements automatically renew on an annual basis unless either party provides 90 days prior notice of non-renewal, and are terminable by either party for any reason with 60 days prior notice. In addition, the Genzyme Agreements provide that during the term of the agreements and for a period of five years after termination, the Company may not sell any prescription drug for the treatment of Gaucher Disease other than Ceredase-Registered Trademark- and Cerezyme-Registered Trademark-. The Company does not have exclusive rights to sell Ceredase-Registered Trademark- or Cerezyme-Registered Trademark-, and Genzyme has reserved the right under the Genzyme Agreements to sell these products directly or to appoint other distributors of these products.

HEMOPHILIA. Hemophilia is an inherited, genetic, lifelong bleeding disorder caused by the absence or inactivity of an essential blood clotting protein or "factor." Two major disease categories exist, hemophilia A, or Factor VIII deficiency, and hemophilia B, or Factor IX deficiency. Hemophilia occurs almost exclusively in males and severe cases are often diagnosed at birth or early childhood. It is estimated that there are approximately 20,000 people with hemophilia in the United States, and presently there is no known cure.

Individuals with hemophilia are susceptible to bleeding episodes which can occur spontaneously or as a result of physical activity or trauma. While small surface cuts can usually be treated with a pressure bandage, the most frequent complication of hemophilia is internal bleeding into muscles and joints which can cause arthritis and debilitating orthopedic problems. More serious complications include internal bleeding in the head, neck, spinal cord or internal organs which can cause death.

Hemophilia is generally treated by infusing anti-hemophilic factor concentrates intravenously when the symptoms of a bleed are detected. Products are dispensed as freeze-dried factor concentrates which are reconstituted with sterile water prior to use and dosage is determined by the patient's weight. This therapy is generally administered by the patient or his or her family members, without the assistance of a nurse, in response to bleeding episodes. Approximately 60% of the persons with hemophilia in the United States have a severe form of the disorder as measured by the level of factor naturally present in the body. In general, the more severe the factor deficiency, the more frequently the bleeding episodes may occur. On average, someone with severe hemophilia will need to infuse factor weekly. In many individuals with severe hemophilia, factor therapy is administered prophylactically to maintain high enough circulating factor levels to minimize the risk of bleeding. The annual revenue to the Company during its 1998 fiscal year from patients receiving this therapy generally ranged from $50,000 to $100,000 per patient depending on a patient's weight, severity of condition and the presence of complications such as inhibitors.

Today, with proper treatment, people with hemophilia can live relatively long and healthy lives. However, in the recent past, many patients contracted hepatitis or human immunodeficiency virus ("HIV") as a result of contaminated plasma derivative therapies they received prior to the mid-1980's. Since then, manufacturers of plasma-derived products have used advanced screening procedures and viral inactivation methods. While such procedures and methods have significantly reduced, if not eliminated, the risk of transmission of hepatitis and HIV in current plasma-derived factor products, it is estimated that approximately one-half of the hemophilia population who received anti-hemophilic factor prior to the mid-1980's was exposed to HIV and is at risk of developing acquired immune deficiency syndrome ("AIDS"). The Company offers medications used in treating AIDS as a convenience to its hemophilia patients that have contracted the HIV virus. In the early 1990's, recombinant clotting factor, a biotechnological alternative to plasma-derived factor, was introduced and to date has proved to be as effective as the plasma-derived products with virtually no risk of viral transmission. Current

utilization reflects increased use of recombinant and monoclonal products by physicians because of the advantages of increased purity. Issues related to the development of inhibitors, or antibodies to the infused factor products, may influence future utilization of these products.

As one of the largest purchasers of clotting factor in the United States, the Company has supply contracts with all major suppliers of factor in order to maintain availability of adequate quantities of factor products and competitive pricing. There are currently six major suppliers of FDA approved products used for treating hemophilia. The Company purchases Kogenate-Registered Trademark- from Bayer Corporation and Recombinate-Registered Trademark- from Baxter Healthcare Corporation in larger quantities than any other factor product, but no supplier is responsible for a majority of the Company's hemophilia product purchases. In addition, the Company purchases factor products from Alpha Therapeutic Corporation, Centeon LLC, Genetics Institute, Inc. and the American Red Cross.

MULTIPLE SCLEROSIS. Multiple Sclerosis is a debilitating neurological disease of the central nervous system that is characterized by episodic symptoms followed by fixed neurologic deficits, increasing disability and physical decline over a period of 30 to 40 years. The disease is believed to be caused by the destruction of myelin sheaths by the body's own immune system. Myelin is the fatty tissue that surrounds and protects the nerve fibers of the central nervous system and facilitates the flow of nerve impulses to and from the brain. The loss of myelin disrupts the conduction of nerve impulses, producing the symptoms of Multiple Sclerosis including vision loss, incontinence, short-term memory loss, fatigue, slurred speech, poor coordination, loss of balance, depression and partial or complete paralysis. It is estimated that Multiple Sclerosis affects between 250,000 and 350,000 people in the United States, approximately two-thirds of whom are women. Ninety-five percent of the patients are caucasian and the disease is more prevalent in the northern latitudes with the highest rates in the Midwest and Northeast areas of the United States. The geography risk for Multiple Sclerosis appears to be associated with where an individual lived their first fifteen years of life. Disease onset typically occurs in young adults between the ages of 20 and 40. Of the patients diagnosed with Multiple Sclerosis in the United States, about 85% of patients initially have relapsing Multiple Sclerosis and about half of those patients go on to develop a progressive form of the disease. About 10 to 15% of patients exhibit a progressive form of the disease at onset. There are currently three FDA approved

products used for treating relapsing Multiple Sclerosis: Avonex-Registered Trademark-, which is manufactured by Biogen; Betaseron-Registered Trademark-, which is manufactured by Chiron Corporation; and Copaxone-Registered Trademark-, which is manufactured by Teva Pharmaceutical Industries Limited. Biogen's Avonex-Registered Trademark- product is the only FDA approved product shown to slow the accumulation of disability in patients with relapsing forms of Multiple Sclerosis and, as a result, Avonex-Registered Trademark- is used by a majority of such patients in the United States currently on drug therapy. The annual revenue to the Company during its 1998 fiscal year from patients receiving this therapy generally ranged from $10,000 to $11,000 per patient.

The Company has had a preferred relationship with Biogen relating to Avonex-Registered Trademark- since its commercial launch in 1996. Avonex-Registered Trademark- is a recombinant form of a protein produced by fibroblast cells in response to viral infection. Avonex-Registered Trademark- is generally administered via a single intramuscular injection once per week. As part of its preferred relationship with Biogen, the Company and Biogen have entered into an agreement (the "Biogen Agreement"), pursuant to which the Company dispenses Avonex-Registered Trademark- and pursuant to which the Company provides various services and information to Biogen. The scope of services provided by the Company to Biogen has increased over the course of the Company's relationship with the manufacturer as the Company has worked with Biogen to further develop customized service offerings. The pricing of Avonex-Registered Trademark- under the Biogen Agreement, as well as the scope and pricing of services provided by the Company under such agreement, are subject to periodic adjustment. The Biogen Agreement has an initial term of three years ending May 1999 and is terminable by either party for any reason with 90 days prior notice. In addition, the Biogen Agreement provides that as long as the Company is the only preferred home delivery service provider approved by Biogen (other than providers to Medicaid patients in certain states), the Company may not without Biogen's approval sell any products that compete with Avonex-Registered Trademark- for the treatment of Multiple Sclerosis. The Company does not have any exclusive rights to sell Avonex-Registered Trademark-, and Biogen has reserved the right under the Biogen Agreement to sell Avonex-Registered Trademark- directly or to appoint other providers of home delivery pharmacy services for Avonex-Registered Trademark-, but such action would eliminate the Company's exclusivity obligations.

GROWTH HORMONE-RELATED DISORDERS. While growth delay in children may be caused by a number of factors, including malnutrition, systemic illness, psychosocial stress or endocrine deficiency, a major treatable cause of growth delay is growth hormone deficiency. Growth hormone deficiency may result from damage to or malfunction of the hypothalamus or pituitary gland. Growth hormone has been used in a variety of conditions associated with short stature, including growth retardation due to renal insufficiency and Turner's syndrome, but the major indication for growth hormone therapy is growth hormone deficiency. It is estimated that there are approximately 20,000 pediatric patients in the United States who are candidates for growth hormone therapy. The use of growth hormone to treat disorders caused by growth hormone deficiency has been commercially available since 1985 and, therefore, the market for growth hormone products is relatively mature. The annual revenue to the Company during its 1998 fiscal year from pediatric patients receiving this therapy generally ranged from $15,000 to $25,000 per patient depending on a patient's weight and severity of condition. Currently, five manufacturers sell seven FDA-approved growth hormone products for a variety of indications. However, a majority of patients currently being treated with growth hormone products use one of Genentech's growth hormone products, Protropin-Registered Trademark-, Nutropin-Registered Trademark- or Nutropin AQ-Registered Trademark-.

The Company has purchasing relationships with all five manufacturers of growth hormone products used in the United States, including a preferred relationship with Genentech that dates back (through former affiliates of the Company) to the launch of Genentech's original growth hormone product, Protropin-Registered Trademark-, in 1985. Growth hormone products are administered by injection several times per week, and in some cases daily. Typically, patients or family members are trained to administer the medication at home without the presence of a nurse. As part of its preferred relationship with Genentech, the Company and Genentech have entered into a distribution agreement (the "Genentech Agreement"), pursuant to which the Company dispenses Genentech's human growth hormone products, Protropin-Registered Trademark-, Nutropin-Registered Trademark- and Nutropin AQ-Registered Trademark-, in the United States and pursuant to which the Company provides various information and other services to Genentech. The pricing of Protropin-Registered Trademark-, Nutropin-Registered Trademark- and Nutropin AQ-Registered Trademark- under the Genentech Agreement, as well as the scope and pricing of the services provided by the Company under such agreement, are subject to periodic adjustment. The Genentech Agreement has an initial term expiring on December 31, 1999, unless extended by mutual agreement, and may only be terminated by either party for cause following a 60-day right to cure or in the event of bankruptcy, insolvency

or similar events affecting the other party. In addition, the Genentech Agreement provides that during the term of the agreement, the Company can (subject to certain conditions) sell human growth hormone products other than Protropin-Registered Trademark-, Nutropin-Registered Trademark- and Nutropin AQ-Registered Trademark-. The Company does not have any exclusive rights to distribute Protropin-Registered Trademark-, Nutropin-Registered Trademark- and Nutropin AQ-Registered Trademark-.

CROHN'S DISEASE. Crohn's Disease is a chronic and debilitating disorder involving inflammation of the gastrointestinal tract. Symptoms include abdominal pain, diarrhea, fever, general fatigue and weight loss. Some patients develop draining fistulae. Remicade-TM-, a drug developed by Centocor, has recently been approved by the FDA for commercialization for the treatment of moderately to severely active Crohn's Disease for the reduction of its signs and symptoms in patients who have an inadequate response to conventional therapy. It has also been approved as a treatment for patients with fistulizing Crohn's Disease for reduction in the number of draining fistulae. It is believed that Remicade-TM- reduces intestinal inflammation in patients with Crohn's Disease by binding to and neutralizing TNF-A on the cell membrane and in the blood and by destroying TNF-producing cells. TNF-A is a key biologic response mediator implicated in the inflammation process.

Crohn's Disease is estimated to affect approximately 400,000 patients in the United States, of which as many as 140,000 patients have moderate to severe Crohn's Disease. Of those with moderate to severe Crohn's Disease, more than 40,000 suffer from fistulizing disease.

In August 1998, the Company established a preferred relationship with Centocor relating to Remicade-TM-. Under an agreement between the Company and Centocor (the "Centocor Agreement"), the Company dispenses Remicade-TM- and provides various information and other services to Centocor. The pricing of Remicade-TM- under the Centocor Agreement, as well as the scope and pricing of the services provided by the Company under such agreement, are subject to periodic adjustment. The Centocor Agreement also contemplates extending the Company's relationship with Centocor to an additional indication for Remicade-TM- if the additional indication

receives all required approvals. This additional indication is currently in Phase III clinical trials. The Centocor Agreement has an initial term of three years ending August 2001, with a renewal provision. The Company does not have any exclusive rights to sell Remicade-TM-, and Centocor has reserved the right under the Centocor Agreement to sell Remicade-TM- directly or to appoint distributors or other providers of pharmacy services for Remicade-TM-. Centocor's decision to appoint other providers of pharmacy services would eliminate the Company's exclusivity obligations.

BUSINESS DEVELOPMENT

At December 31, 1998, the Company had 17 full-time and 7 part-time sales and marketing personnel who sell the Company's therapies and services to physicians, patients and private payors. The Company also creates special direct marketing programs to potential referral sources who specialize in care and support of patients with chronic disorders. The Company's sales and support personnel also work closely with each of the referral sources with the goal of addressing the clinical and reimbursement needs of their patients. The Company assists in clinical studies, professional training seminars, distribution of patient support material, development of patient support groups, and other programs designed to assist patients, payors, manufacturers and physicians in enhancing the quality of care and quality of life for patients and their families.

The Company continually seeks to obtain contracts with additional payors, including managed care companies and employers, in order to access and provide services for a greater number of patients. Because most third party payor beneficiaries are restricted to using pharmacy providers included in their payor's provider panel, the Company is eligible to receive reimbursement only for services provided to patients covered by payors with whom the Company maintains provider contracts. The Company maintains a dedicated team of sales and marketing personnel that work exclusively on pursuing additional payor relationships and has a variety of payor education programs aimed at increasing awareness of the Company's specialized services among private payors.

In addition, the Company has a full time director of business development whose responsibilities include tracking biotechnology drugs in development, determining whether these drugs meet the Company's service criteria and are a strategic fit for the Company, introducing the Company's services to the manufacturers of these drugs and assisting in the development of customized services for these manufacturers. There were an estimated 242 biotechnology

drugs in late stage development as of mid-1998. The Company targets biotechnology drug manufacturers that have a need to outsource specialized contract pharmacy and related services to an experienced provider of such services rather than develop the capabilities internally.

SUPPLIERS

Substantially all of the biotechnology drugs sold by the Company, other than clotting factor products, are available only from single sources: Genzyme, with respect to Ceredase-Registered Trademark-, Cerezyme-Registered Trademark- and Thyrogen-Registered Trademark-; Biogen, with respect to Avonex-Registered Trademark-; Genentech, with respect to Protropin-Registered Trademark-, Nutropin-Registered Trademark- and Nutropin AQ-Registered Trademark-; and Centocor, with respect to Remicade-TM-. Although there are four other manufacturers of FDA approved growth hormone products, Genentech's products collectively enjoy a market share that exceeds the aggregate of all other individual manufacturers of growth hormone products. Accordingly, in the event that one or more of its current suppliers of products (other than hemophilia products) were to cease selling products to the Company, the Company's business, financial condition and results of operations would be materially and adversely affected. Approximately 29%, 23% and 14% of the Company's total revenues in the six months ended December 31, 1998 and the fiscal years ended June 30, 1998 and 1997, respectively, were derived from sales of Avonex-Registered Trademark- and related services. In addition, approximately 39%, 46% and 64% of the Company's total revenues in the six months ended December 31, 1998 and the fiscal years ended June 30, 1998 and 1997, respectively, were derived from sales of Ceredase-Registered Trademark- and Cerezyme-Registered Trademark- and related services. The Company has supply contracts with all five major suppliers of clotting factor in the United States, and no supplier is responsible for a majority of the Company's hemophilia product purchases.

The Company's agreements with its key suppliers (including Genzyme, Biogen, Genentech and Centocor) generally may be canceled by either party, without cause, upon between 60 and 90 days prior notice. Furthermore, the Company and its suppliers periodically adjust the acquisition cost and other terms for the drugs and related supplies covered by such contracts. In addition, the Company's agreements with its suppliers generally provide that during the term of the agreements (and in certain instances for as much as five years after termination of the agreements), the Company may not distribute any competing products. The Company does not have any exclusive rights to distribute its products, and its suppliers have generally reserved the right under their agreements with the Company to distribute their products directly or to appoint other distributors of their products. See "Risk Factors--Dependence on Relationships with Limited Number of Biotechnology Drug Manufacturers" and "Business--Disease Markets and Manufacturer Relationships."

STRATEGIC RELATIONSHIPS WITH MEDICAL CENTERS

Many of the patients served by the Company have diseases that are discovered before or during adolescence and require on-going care from specialist physicians, who are often based at pediatric, academic or other acute care medical centers. In order for the Company to obtain access to additional patients and introduce them to the Company's specialized services during the initial stages of their treatment program, the Company seeks to establish strategic relationships, including joint ventures and management contracts, with such medical centers.

The Company currently has joint ventures with four medical centers (or their affiliates): Childrens Home Care located in Los Angeles, California; Alternative Care Systems, Inc. located in Dallas, Texas; Cook Childrens Medical Center located in Ft. Worth, Texas; and CM Healthcare Resources, Inc. located in Chicago, Illinois. In the typical joint venture arrangement, the Company and a medical center (or its affiliate) form a joint venture entity that then enters into a management agreement with the Company to obtain specialized contract pharmacy services. Under the terms of the joint venture agreement, the Company manages the sales, marketing and provision of specialty pharmacy services in exchange for a monthly management fee and the reimbursement of certain expenses. Generally, the Company and the medical center share in the profits and losses of the joint venture entity in proportion to their respective capital contributions. The agreements generally have initial terms of between one and five years and contain certain restrictive covenants and rights of first refusal.

In addition to joint venture relationships, the Company has entered into management agreements with medical centers (or their affiliates) to provide specialized contract pharmacy services. The Company currently has contract management relationships with three medical centers (or their affiliates): LeBonheur Children's Medical Center located in Memphis, Tennessee; duPont Hospital for Children located in Wilmington, Delaware and Children's National Medical Center located in Washington D.C. Pursuant to these management

agreements, the Company provides goods and services used in the medical center's specialized pharmacy business, including drugs and related supplies, patient education, clinical consultation and certain reimbursement services. While the payment terms under such management agreements vary, the Company is generally reimbursed for its costs and is paid a monthly management fee from the sale of those products and services. These agreements usually have terms of between one and five years and are terminable by either party, with or without cause, with between one and twelve months prior notice. See "Risk Factors--Dependence on Medical Center Relationships."

PAYORS

The following are the approximate percentages of the Company's gross patient service revenue attributable to various payor categories for the fiscal year ended June 30, 1998 and the six months ended December 31, 1998:

<TABLE>
<CAPTION>

	YEAR ENDED JUNE 30, 1998	SIX MONTHS ENDED DECEMBER 31, 1998
<S>	<C>	<C>
Private payors (including self pay)(1)	80%	83%
Medicaid and other state programs	17%	14%
Medicare and other federal programs	3%	3%
Total	100%	100%

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(1) Includes sales to private physician practices, whose ultimate payor is typically Medicare, which accounted for approximately 7% of gross patient service revenue for fiscal year 1998 and 6% of gross patient service revenue for the six months ended December 31, 1998.

The Company typically agrees to furnish drugs and services to substantially all patients recommended to the Company by its referral sources. The Company believes this approach is important to maintain the confidence, support, and loyalty of referral sources. The Company acts on behalf of the patients it serves to assist them in obtaining reimbursement from third-party payors, including managed care companies. Generally, the Company contacts third-party payors before the commencement of services or delivery of product in order to determine the patient's coverage and the percentage of costs that the payor will cover. The Company's reimbursement staff reviews issues such as lifetime limits, pre-existing condition clauses, the availability of special state programs, and other reimbursement-related matters. The Company often will negotiate with third-party payors on the patient's behalf to obtain or extend coverage. The Company typically obtains assignment of benefits from patients that enable it to file claims for its services and be paid directly for the covered amounts of its charges. Due to the high cost of the products distributed by the Company and the complexity of payor systems, claims often cannot be submitted electronically, which increases labor costs associated with obtaining reimbursement. As with most health care providers, the Company can experience lengthy collection periods as a result of third party payment systems and, consequently, management of accounts receivable through patient registration, billing, collection and reimbursement procedures is critical to the Company.

The primary trend in the United States health care industry is toward cost containment. The increasing prevalence of managed care, centralized purchasing decisions, consolidation among and integration of health care providers and competition for patients has and continues to affect pricing, purchasing and usage patterns in health care. Decisions regarding the use of a particular drug treatment are increasingly influenced by large private payors, including managed care organizations, pharmacy benefit managers, group purchasing organizations, regional integrated delivery systems and similar organizations and are becoming more economically focused, with decisions taking into account product cost and whether a product reduces the cost of treatment. Efforts by payors to eliminate, contain or reduce costs through coverage exclusions, lower reimbursement rates, greater claims scrutiny, closed provider panels, restrictions on required formularies, claim delays or denials and other similar measures could adversely affect the Company's revenues, profitability and cash flow. Certain payors set lifetime limits on the amount reimbursable to patients for medical costs. Certain of the Company's patients may reach these limits because of the high cost of their medical treatment and associated pharmaceutical regimens. To date, the Company has not had significant experience with patients reaching lifetime limits. Certain payors may attempt to further control costs by selecting certain firms to be their exclusive providers of pharmaceutical or other medical product benefits. If any such arrangements were with the Company's competitors, the Company would be unable to be reimbursed for purchases made by such patients.

The Company derives a significant portion of its revenue from governmental programs such as Medicare and Medicaid. Such programs are highly regulated and subject to frequent and substantial changes and cost containment measures. In recent years, changes in these programs have limited and reduced reimbursement to providers and Congress recently enacted the Balanced Budget Act of 1997 (which establishes a plan to balance

the federal budget by 2002) that includes significant additional reductions in spending levels for these programs. This legislation also replaced and relaxed the federal Medicaid payment standard thereby increasing state discretion over administration of Medicaid programs. Furthermore, federal and state proposals are pending that would impose further limitations on governmental payments and that would increase patient co-payments and deductibles. Additionally, a number of states are considering legislation designed to reduce their Medicaid expenditures and provide universal coverage and additional care for certain populations, including proposals to impose additional taxes on providers to help finance or expand such programs. Any of these changes could result in significant reductions in payment levels for drugs handled and services provided by the Company, which would have a material adverse effect on the Company's business, financial condition and results of operations. In addition, the Company may be required to maintain a licensed pharmacy in certain states in order to qualify for reimbursement under state administered reimbursement plans. See "Risk Factors--Dependence on Payors and Reimbursement Risks."

Certain of the medical centers with which the Company has a joint venture or management relationship have hemophilia treatment centers ("HTC") that are eligible to purchase factor from manufacturers at a discount pursuant to a provision of the Public Health Service Act as enacted by the Veteran's Health Care Act of 1992 ("PHS Pricing"). Manufacturers that sell outpatient drugs to eligible entities sign an agreement with DHHS under which they agree to not charge a price for covered outpatient drugs in excess of a statutorily set amount. The Company does not directly own or operate an HTC that is eligible for PHS Pricing, which may place it at a competitive disadvantage as a provider of factor, except in the limited circumstances where its affiliated medical centers are eligible for PHS Pricing. Under DHHS contract pharmacy guidelines, an eligible HTC may obtain factor at PHS Pricing, and dispense it to patients of the HTC through a contract pharmacy. However, eligible centers which fail to comply with the contract pharmacy guidelines, or divert PHS Pricing factor to non-patients of the HTC in violation of DHHS guidelines, may incur civil penalties, or liability to drug manufacturers for the amount of discount provided.

The HRSA published notice in October 1998 proposing to change current grant award requirements for certain entities eligible under the Section 340B Drug Discount Program (centers eligible for PHS Pricing). This notice proposes imposing a grant award requirement in which all entities that receive HRSA grants listed in Section 340B(a)(4) of the Public Health Service Act and that purchase or reimburse for covered outpatient drugs must participate in PHS Pricing or demonstrate good cause for nonparticipation. If the proposed change in the grant award requirement is finalized, the number of treatment centers and hospitals accessing PHS Pricing is expected to increase, thereby providing additional competition to the Company's sale of clotting factor.

COMPETITION

The specialty pharmacy services industry is highly competitive and is experiencing both horizontal and vertical consolidation. The industry is fragmented, with many public and private companies focusing on different product or customer niches. Some of the Company's current and potential competitors include specialty pharmacy divisions of national wholesale drug distributors; specialty pharmacy distributors, such as Caremark Therapeutic Services (a subsidiary of MedPartners, Inc.) and Olsten Corporation; pharmacy benefit management companies; hospital-based pharmacies; retail pharmacies; home infusion therapy companies; certain manufacturers that sell their products both to distributors and directly to users, including clinics and physician offices; and hospital-based comprehensive hemophilia care centers and other alternate site health care providers. Some of the Company's competitors have greater financial, technical, marketing and managerial resources than the Company.

While competition is often based primarily on price and quality of care and service, it can also be affected by the ability to develop and maintain relationships with patients and referral sources, depth of product line, technical support systems, specific patient requirements and reputation. There can be no assurance that competitive pressures will not have a material adverse affect on the Company's business, financial condition and results of operations.

Through federal legislation such as the Social Security Act, as amended, the Veterans Health Care Act of 1992, and the Public Health Services Act, and the

rules and regulations thereunder, manufacturers of certain types of outpatient drugs, including clotting factor, are required to provide price discounts for such drugs to various types of federally funded hemophilia treatment centers, which is a competitive advantage to such providers not available to the Company.

COMPLIANCE PROGRAM

The Company adopted a new corporate compliance program, entitled "Code of Ethics and Business Conduct," in February 1998 (the "Compliance Program"). The Compliance Program was implemented to detect and prevent inappropriate or dishonest conduct in the workplace, including violations of antitrust laws, dishonest or misleading dealings with suppliers, patients, payors, and competitors, and the disclosure of confidential or sensitive information. Upon accepting a job with the Company, employees receive a written copy of the Compliance Program and are asked to read the document prior to their first day of employment. A training session is conducted during new employee orientation and all employees are required to sign a written acknowledgment that he or she has read and understands the Compliance Program and will adhere to the standards set forth therein. The Company has a corporate compliance officer and a compliance committee with representation from each operating subsidiary. The compliance officer is responsible for administering the program, which includes training, internal audits and reviews, and responding to reported issues with the assistance of the compliance committee. Employees are encouraged to ask questions or reveal potential compliance issues to either their supervisor or their compliance committee member or via a toll free hotline number. These calls can be made anonymously, if so desired. Employees also receive corporate compliance training periodically with respect to potential compliance issues. Issues that are reported to the committee will normally be handled at the committee level unless the compliance officer believes that the Company's Board of Directors should be involved. At least once a year, the corporate compliance officer will meet with or submit a written report to the Company's Board of Directors. While there is not a standing compliance committee of the Board of Directors, an outside director, Kenneth R. Masterson, has been designated as a liaison from whom the compliance officer may seek advice.

GOVERNMENT REGULATION

The conduct of marketing, selling and purchasing drugs and medical supplies by and among manufacturers, distributors, health care providers and patients is extensively regulated and periodically scrutinized by state and federal governments for compliance with laws and regulations regarding, among other things, inducements for referrals, prohibited financial relationships with physicians, joint venture and management arrangements, product discounts, incentives to patients and professional licensure. This regulatory framework is complex and the laws are very broad in scope, subject to differing interpretations and lack substantive court decisions addressing many arrangements under which the Company has and expects to conduct its business. Because civil and criminal sanctions may be imposed for violations of these laws, compliance is a significant operational requirement for the Company. Because of the nature of this regulatory framework, there can be no assurance that all of the Company's business practices would be construed to comply with these laws in all respects, and any violation or alleged violation of these laws could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company is unable to predict the future course of federal, state and local regulation, legislation or enforcement, and changes in this complex regulatory framework or in the interpretation of these laws, rules and regulations could have a material adverse effect on the Company's business, financial condition and results of operations.

LICENSURE AND REGISTRATION. In general, the Company's pharmacy operations are regulated by the statutes and regulations of Tennessee, where it is licensed as a retail pharmacy and wholesale distributor of pharmaceuticals, as well as the states of Alabama, and Texas, where it operates satellite retail pharmacies. In addition, the Company currently delivers prescription products from its licensed pharmacies to patients in other states in

which the Company does not operate a pharmacy. Many of these states have laws or regulations requiring out-of-state pharmacies to be licensed as a condition to the delivery of prescription products to patients in such states. The Company believes that it is in substantial compliance with such laws as are applicable.

Various federal and state pharmacy associations and some boards of pharmacy have attempted to promote laws or regulations directed at restricting the activities of out-of-state pharmacies, thereby benefiting local pharmacies with which the Company competes from time to time. In addition, a number of states have laws or regulations which, if successfully enforced, would effectively limit some of the financial incentives available to third-party payors that offer managed care prescription drug programs. To the extent such laws or regulations are found to be applicable to the Company, there is no assurance the Company could comply, and noncompliance could adversely affect the Company's pharmacy service operations.

The federal and state controlled substances laws and regulations govern manufacturers, distributors and dispensers of controlled substances. Any person who manufactures, distributes, or dispenses controlled substances must obtain a registration from the United States Attorney General and, where required, from the appropriate state agency. A separate registration is required at each principal place of business where the applicant manufactures, distributes, or dispenses controlled substances. The laws and regulations also specify label and packaging requirements for manufacturers and distributors and record-keeping and reporting requirements for all registrants. Although the Company maintains federal and applicable state regulations under these laws, it handles small amounts of inventory that are subject to controlled substances laws.

PROFESSIONAL PRACTICE. State laws prohibit the practice of pharmacy without a license. Accordingly, the Company's pharmacists are all licensed in Tennessee, and other states where required. The Company monitors the professional aspects of their practice. However, to the extent that the Company's employees assist patients and providers in helping patients comply with prescribed treatment programs, such activities could be deemed by a state to be the practice of medicine, nursing, or outside the scope of permitted pharmacy practice.

PHARMACY COUNSELING LAW. Federal support of state Medicaid programs for covered outpatient drugs is conditioned on the state having a drug use review ("DUR") program. The DUR program must consist of prospective drug review, retrospective drug use review, the application of predetermined standards, and an educational program. The purpose of the DUR program is to improve the quality of pharmaceutical care by ensuring that prescriptions are appropriate and medically necessary, and that they are not likely to result in adverse medical events. As part of the program, the state must develop standards containing the minimum specified requirements for the counseling by pharmacists of patients or their caregivers. The standards must address special situations where the patient or the patient's representative is not readily available to receive an offer to counsel, such as prescriptions delivered through the mail. The Company believes that its pharmacists monitor these requirements and provide the requisite counseling in the ordinary course of their activities.

FEDERAL MAIL ORDER. In addition to state regulations of pharmacies and pharmacists, federal statutes and regulations establish standards for the labeling, packaging, repackaging, advertising and adulteration of prescription drugs and the dispensing of "controlled" substances and prescription drugs. To the extent that the Company were to use the federal postal service, Federal Trade Commission and United States Postal Service regulations require mail order sellers to engage in truthful advertising, to stock a reasonable supply of drugs, to fill mail orders within thirty days and, if that is impossible, to inform the consumer of his or her right to a refund. The Company believes that it is in substantial compliance with the above requirements.

THE PRESCRIPTION DRUG MARKETING ACT. The federal Prescription Drug Marketing Act ("PDMA") provides that certain drugs and devices, generally those requiring a prescription by a physician, are exempted from the federal labeling and packing requirements, upon the condition that such drugs are not adulterated or misbranded. The PDMA also generally prohibits the selling, purchasing, or trading of any drug sample, which is not intended to be sold or intended to promote the sale of the drug. The PDMA imposes certain documentation and record keeping requirements, as well as proper drug storage and maintenance requirements, in connection with the distribution of drug samples. In those instances where the PDMA applies to drugs or services provided by

the Company, the Company believes that it complies with the PDMA through its ordinary course of documentation, record keeping and storage procedures.

ANTI-KICKBACK AND SELF-REFERRAL. As a health care company, the Company is subject to various federal laws that regulate the relationship between providers of health care services and referral sources such as physicians and hospitals. Under Medicare, Medicaid and other programs of government payment and reimbursement of health-related costs, the federal and state governments enforce a federal statute that prohibits the offer, payment, solicitation or receipt of any remuneration, directly or indirectly, overtly or covertly, in cash or in kind to induce or in exchange for (i) the referral of patients covered by the programs, or (ii) the leasing, purchasing, ordering or arranging for or recommending the lease, purchase or order of any item, good, facility or service covered by the programs (the "Anti-Kickback Law"). Penalties include criminal fines, civil monetary penalties, and imprisonment, and the exclusion of anyone, including an individual or an entity who has committed any of the prohibited acts, from participation in the Medicare and Medicaid programs whether such individual or entity participates in such governmental programs directly or indirectly. If applied to the Company, any of its personnel, or any significant customer or business partner of the Company, such sanctions could have a material adverse effect on the Company's business, financial condition and results of operations. Additionally, the sanctioning or exclusion of a manufacturer or a recipient of the Company's services from those programs, for activities unrelated to those of the Company, could also have a material adverse effect on the Company's business, financial condition and results of operations.

In addition, numerous states have existing or proposed laws that prohibit financial arrangements among health care providers. These state laws are not necessarily limited to items or services for which payment is made by Medicare or Medicaid. Violations of these laws include civil and criminal penalties, as well as the suspension or termination of a provider's ability to continue to provide services in the state. Federal and state court decisions interpreting these federal and state statutes are limited, but some courts have construed the statutes to apply if "one purpose" of remuneration is to induce referrals or other conduct within the proscriptions of the statute.

In an effort to curb health care fraud, Congress included several anti-fraud measures in the Health Insurance Portability and Accountability Act of 1996 ("HIPAA"). HIPAA, among other things, amends existing crimes and criminal penalties for Medicare fraud and enacts new federal health care fraud crimes. HIPAA also expands the federal Anti-Kickback Law to apply to all federal health care programs, which is any plan or program that provides health benefits through insurance funded by the federal government. Under HIPAA, the Secretary of the Department of Health and Human Services ("the Secretary") may exclude from the Medicare program any individual who has a direct or indirect ownership or control interest in a health care entity that has been convicted of a health care fraud crime or that has been excluded from the Medicare program, if the individual knew or should have known of the action constituting the basis for the conviction or exclusion of the entity. HIPAA directs the Secretary to establish a program to collect information on health care fraud and abuse to encourage individuals to report information concerning fraud and abuse against the Medicare program and provides for payment of a portion of amounts collected to such individuals. HIPAA mandates the establishment of a Fraud and Abuse Program, among other programs, to control fraud and abuse with respect to health plans and to conduct investigations, audits, evaluations, and inspections relating to the delivery of and payment for health care in the United States.

HIPAA prohibits any person or entity from knowingly and willfully committing a federal health care offense relating to a health care benefit program. Under HIPAA, a "health care benefit program" broadly includes "any public or private plan or contract, affecting commerce, under which any medical benefit, item, or service is provided to any individual." Among the "federal health care offenses" prohibited by HIPAA are health care fraud and making false statements relative to health care matters. Any person or entity that knowingly and willfully defrauds or attempts to defraud a health care benefit program or obtains by means of false or fraudulent pretenses, representations, or promises, any of the money or property of any health care benefit program in connection with the delivery of health care services is subject to a fine and/or imprisonment. In addition, HIPAA provides that any person or entity that knowingly and willfully falsifies or conceals or covers up a material fact or

makes any materially false or fraudulent statements in connection with the delivery of or payment of health care services by a health care benefit plan is subject to a fine and/or imprisonment. These provisions of HIPAA represent the criminalization of situations which previously would have been handled civilly through the administrative processes of repayments of overpayments, offsets, and fines.

The Anti-Kickback Law and similar state statutes are broad in scope, subject to frequent modification and differing interpretations. In an attempt to clarify which arrangements are not subject to prosecution under the Anti-Kickback Law, the Department of Health and Human Services ("DHHS") adopted a set of "safe harbor" regulations and continues to publish clarifications to such safe harbors. Arrangements that comply with all the requirements of all applicable safe harbors are deemed not to violate the Anti-Kickback Law. The Company has several business arrangements, such as, without limitation, joint venture and management arrangements with medical centers, service arrangements with physicians and product pricing arrangements with suppliers that do not satisfy all of the requirements necessary to fall within the safe harbors, and there is not safe harbor protection for each and every Company arrangement. Due to the breadth and complexity of these laws and regulations, and the absence in many instances of court decisions addressing arrangements by which the Company has conducted and expects to conduct its business, it is possible that some of the Company's practices could be challenged. Although failure of a transaction or arrangement to fit within a specific safe harbor provision does not necessarily mean that the structure of the transaction is illegal or that prosecution under the Anti-Kickback Law will be pursued, there can be no assurance that the Company's practices will not be challenged, or that the Company will not be subject to sanctions or be required to alter or discontinue certain of its practices, any of which could have a material adverse effect on the Company's business, financial condition and results of operations.

OIG FRAUD ALERTS. The Office of Inspector General ("OIG") has issued "Fraud Alerts" identifying certain arrangements and practices which it believes may implicate the federal fraud and abuse laws. The OIG has issued a Fraud Alert providing its views on certain joint venture and contractual arrangements between health care providers. The OIG has issued a Fraud Alert concerning prescription drug marketing practices that could potentially violate federal

fraud and abuse laws. Pharmaceutical marketing activities may implicate the federal fraud and abuse laws because drugs are often paid for by Medicare and the Medicaid program. According to the Fraud Alert, examples of practices that may implicate the fraud and abuse laws include arrangements under which remuneration is made to pharmacists to recommend the use of a particular pharmaceutical product. In addition, a number of states have recently undertaken enforcement actions against pharmaceutical manufacturers involving pharmaceutical marketing programs, including programs containing incentives for pharmacists to dispense one particular product rather than another. These enforcement actions arise under state consumer protection laws which generally prohibit false advertising, deceptive trade practices and the like. Further, a number of the states involved in these enforcement actions have requested that the FDA exercise greater regulatory oversight in the area of pharmaceutical promotional activities by pharmacists. It is not possible to determine whether the FDA will act in this regard or what effect, if any, FDA involvement would have on the Company's operations.

THE STARK LAW. The Company and any physician (or the physician's immediate family members) with whom the Company may have business dealings are also subject to the Ethics in Patient Referrals Act of 1989, commonly called the "Stark Law." Unless excepted, the Stark Law prohibits physicians from making a referral for the rendering of certain health-related items or services if such practitioner or his or her family member has a financial relationship with the entity receiving the referral. Correspondingly, such entity cannot bill for a service or item provided pursuant to a prohibited referral. The prohibitions of the Stark Law apply to the products and services provided by the Company. Among other sanctions, a civil monetary penalty may be levied for each product or service provided pursuant to a prohibited referral upon both the person making the referral and the provider rendering the service. Such persons or entities are also subject to exclusion from Medicare and Medicaid. The prohibitions of the Stark Law apply to the Company's products and services. Due to the breadth and complexity of the Stark Law and the absence of court decisions construing such law, it is possible that some of the Company's practices could be challenged and there can be no assurance that the Company will not be

subject to sanctions or be required to alter or discontinue certain of its practices, any of which could have a material adverse effect on the Company's business, financial condition and results of operations.

BENEFICIARY INDUCEMENT. HIPAA created new civil monetary penalties for individuals and entities that offer remuneration or other inducements to the beneficiaries of federal health care programs, such as Medicare, Medicaid and CHAMPUS, which the provider knows or should know will influence the beneficiaries' decision to seek specific governmentally reimbursable items or services or to choose a particular provider to provide those items or medical services. HIPAA provides an exception to this prohibition by excluding items provided to promote the delivery of preventive care. Under the statutory exemption, it would not be considered impermissible remuneration for a provider to give certain types of incentives to a beneficiary to encourage the beneficiary to receive preventive care. The statutory exception would apply where "such care is provided or directly supervised by the medical provider that has provided the incentive."

The OIG has issued proposed regulations concerning the HIPAA prohibition against inducements to beneficiaries (the "Proposed Regulations"). In contrast to the statute, the OIG has taken the position that the statutory exception for incentives to promote preventive care does not include the "direct rendering of preventive medical care." The Preamble of the Proposed Regulations provides examples of the type of preventive care incentives the OIG would consider permissible under this statutory exemption: (i) transportation to and from preventive care services; (ii) car seats, formula and other items for those participating in prenatal or postnatal classes; and (iii) tee shirts, videos and water bottles for those participating in post-cardiac care fitness programs. The OIG has indicated that items and services related to general health promotion such as health club memberships, vitamins, nutritional supplements and the like would not be permissible incentives under the statutory exception. The OIG has also stated that permissible incentives would not include cash or cash equivalents. As the OIG noted in the Preamble, the committee report on these provisions had stated that the provision of items and services of nominal value was permissible, offering as examples, "refreshments, medical literature, complimentary local transportation services, or participation in free health fairs." The OIG has interpreted this statement restrictively to mean that the aggregate value of such services is nominal and that the provision of even nominally priced incentives on a frequent basis would be impermissible. The Company from time to time provides certain items at no charge to its patients in connection with their drug therapies. Although the Company believes these items fall within the scope of the statutory preventive care exception, or are otherwise of nominal value, there can be no assurance regarding the scope of any final regulations, or that the Company will not be challenged on its practices and suffer applicable sanctions or be required to alter or discontinue its "no charge" practices, any of which could have a material adverse effect on the Company's business, financial condition and results of operations.

THE FALSE CLAIMS ACT. The Company is also subject to federal and state laws, including the federal False Claims Act, prohibiting an individual or entity from knowingly and willfully presenting claims for payment (by Medicare, Medicaid, or other third party payors) that contain false or fraudulent information. These laws also provide for both criminal and civil penalties. Furthermore, providers found to have submitted claims which they knew or should have known were false, fraudulent, or for items or services that were not provided as claimed, may be excluded from Medicare and Medicaid participation, required to repay previously collected amounts, and subject to substantial civil monetary penalties.

GOVERNMENT INVESTIGATIONS. There is increasing scrutiny by law enforcement authorities, the OIG, the courts, and Congress of arrangements between health care providers and potential referral sources to ensure that the arrangements are not designed as a mechanism to exchange remuneration for patient care referrals and opportunities. Investigators have demonstrated a willingness to look behind the formalities of a business transaction to determine the underlying purpose of payments between health care providers and potential referral sources. Enforcement actions have increased, as evidenced by recent highly publicized enforcement investigations. Although, to its knowledge, the Company is not currently the subject of any investigation, there can be no assurance that the Company will not be the subject of investigations or inquiries in the future nor that

any such investigation would not have a material adverse effect on the Company's business, financial condition and results of operations.

In addition to investigations and enforcement actions initiated by governmental agencies, health care companies may also be the subject of qui tam actions brought under the False Claims Act by private individuals on behalf of the government. Furthermore, actions under the False Claims Act, commonly known as "whistleblower" lawsuits are generally filed under seal to allow the government adequate time to investigate and determine whether it will intervene in the action, and defendant health care providers are often without knowledge of such actions until the government has completed its investigation and the seal is lifted.

CONFIDENTIALITY. Various federal and state laws establish minimum standards for the maintenance of medical records and protect the confidentiality of patient medical information. In the course of its business, the Company maintains medical records for each patient to whom it dispenses drugs. As a result, it is subject to one or more of these medical record and patient confidentiality laws. In addition, the Company may become subject to new rules recently mandated by HIPAA, and proposed by HCFA to ensure the integrity and confidentiality of patient data by creating mandatory security standards for entities which maintain or transmit health information electronically. The Company maintains written procedures and provides regular training to its employees in an effort to comply with all of the medical record and patient confidentiality laws to which the Company is subject. Unauthorized disclosure of confidential patient information, or other failure to comply with any applicable laws and regulations regarding the maintenance of patient records and the confidentiality of medical information, could have a material adverse effect on the Company's business, financial condition and results of operation.

BALANCED BUDGET ACT. Each state has its own Medicaid program that is funded jointly by the state and Federal government. Federal law governs how each state manages its Medicaid program, but there is wide latitude for states to customize Medicaid programs to fit the needs and resources to their citizens. As a result, each state Medicaid plan has its own payment formula and recipient eligibility criteria. In recent years, changes in Medicare and Medicaid programs have resulted in limitations on, and reduced levels of, payment and reimbursement for a substantial portion of health care goods and services. Congress recently enacted the Balanced Budget Act of 1997, which establishes a plan to balance the federal budget by fiscal year 2002, and includes significant additional reductions in spending levels for the Medicare and Medicaid programs.

The Medicare, Medicaid, CHAMPUS and other governmental programs are subject to statutory and regulatory changes, administrative rulings, interpretations and determinations, requirements for utilization review and new governmental funding restrictions, all of which may materially increase or decrease program payments as well as affect the cost of providing services and the timing of payments. The final determination of amounts earned under the programs often requires many years, because of audits by the program representatives, providers' rights of appeal and the application of numerous technical provisions. The Company believes adequate provision has been made for such adjustments. Until final adjustment, however, significant issues remain unresolved and payments received could be recouped.

REFORM. Political, economic and regulatory influences are subjecting the health care industry in the United States to fundamental change. A variety of new approaches have been proposed, including mandated basic health care

benefits, controls on health care spending through limitations on the growth of private health insurance premiums and Medicare and Medicaid spending, and the creation of large purchasing groups. In addition, some of the states in which the Company operates have adopted or are considering various health care reform proposals. The Company anticipates that Congress and state legislatures will continue to review and assess alternative health care delivery systems and payment methods and that public debate of these issues will likely continue in the future. Because of uncertainty regarding the ultimate features of reform initiatives and their enactment and implementation, the Company cannot predict which, if any, of such reform proposals will be adopted, when they may be adopted, or what impact they may have on the Company.

FACILITIES

The Company's corporate headquarters is located in Memphis, Tennessee and its primary pharmacy locations are in Memphis and Nashville, Tennessee. In addition, the Company has a satellite pharmacy location in the Birmingham, Alabama area and two satellite pharmacy locations in the Dallas/Ft. Worth, Texas area that are leased by partnerships in which the Company is a general partner.

MEMPHIS, TENNESSEE. The Company currently leases an aggregate of approximately 42,000 square feet of space in an office/warehouse business park in Memphis, Tennessee pursuant to two lease agreements that expire in 2003, each with an option to extend the lease term for one additional five year period. The Company is negotiating to lease an additional 20,000 square feet of space.

NASHVILLE, TENNESSEE. The Company currently leases approximately 24,000 square feet of space in Nashville, Tennessee pursuant to a lease agreement that expires in October 1999, with an option to extend the lease term for one additional five year period.

BIRMINGHAM, ALABAMA. The Company currently leases approximately 2,400 square feet of space in the Birmingham, Alabama area pursuant to a lease agreement that expires in February 2000.

DALLAS/FORT WORTH, TEXAS. Partnerships in which the Company is a general partner currently lease an aggregate of approximately 2,400 square feet of space in two locations in the Dallas/Fort Worth, Texas area pursuant to two lease agreements that expire in May 2002, each with an option to extend the lease term for one additional three year period.

EMPLOYEES

The Company had 296 full-time and 36 part-time employees as of December 31, 1998, which included 29 full-time and four part-time pharmacists. None of the Company's employees are represented by a labor union, and management considers its relations with its employees to be good.

LIABILITY INSURANCE

Providing health care services and products entails an inherent risk of liability. In recent years, participants in the health care industry have become subject to an increasing number of lawsuits, many of which involve large claims and significant defense costs. The Company may from time to time be subject to such suits as a result of the nature of its business. The Company maintains general liability insurance, including professional and product liability, in an amount deemed adequate by management. There can be no assurance, however, that claims in excess of, or beyond the scope of, the Company's insurance coverage will not arise. In addition, the Company's insurance policies must be renewed annually. Although the Company has not experienced difficulty in obtaining insurance coverage in the past, there can be no assurance that it will be able to do so in the future on acceptable terms or at all.

LEGAL PROCEEDINGS

The Company is involved in various lawsuits and claims arising in the normal course of business. In the opinion of Company management, although outcomes of these lawsuits and claims are uncertain, in the aggregate they should not have a material adverse effect on the Company's business, financial condition or results of operations.

MANAGEMENT

EXECUTIVE OFFICERS AND DIRECTORS

The following table sets forth certain information with respect to the executive officers and directors of the Company.

<TABLE>
<CAPTION>

NAME	AGE	POSITION
<S>	<C>	<C>
David D. Stevens.....	45	Chairman of the Board of Directors and Chief Executive Officer
John R. ("Randy") Grow.....	50	President and Director
Joel R. Kimbrough.....	41	Senior Vice President, Chief Financial Officer and Treasurer
Kyle J. Callahan.....	32	Senior Vice President and Director
Thomas W. Bell, Jr.....	47	Senior Vice President, General Counsel and Secretary
Kenneth R. Masterson(1).....	54	Director
Kenneth J. Melkus(1).....	52	Director
Andrew M. Paul(2).....	42	Director
Patrick J. Welsh(2).....	55	Director

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(1) Member of the Audit Committee.

(2) Member of the Compensation Committee.

DAVID D. STEVENS has served as Chief Executive Officer of Accredo since it was acquired from Le Bonheur in 1996 and has served as a Director of Accredo since June 1997. Previously, Mr. Stevens served as Chief Operating Officer of SHS since its inception in 1983. Mr. Stevens has served as President of SHS since 1993 and Director since 1996. He has served as Chief Executive Officer of Nova Factor since 1996 and as a Director since 1990.

JOHN R. ("RANDY") GROW has served as President of Accredo since it was acquired from Le Bonheur in 1996 and has served as a Director of Accredo since June 1997. Mr. Grow has also served as President of Nova Factor since 1996, and Chief Operating Officer and Director since 1990. Previously, Mr. Grow was employed in the home infusion industry as President of Curaflex Health Infusion Services, Inc. from 1988 to 1989 and as Area Vice President of Caremark, Inc. from 1985 to 1988.

JOEL R. KIMBROUGH has served as Senior Vice President and Chief Financial Officer and Treasurer of Accredo since it was acquired from Le Bonheur in 1996. He has also served as Chief Financial Officer and Director of Nova Factor since its inception in 1990, as Chief Financial Officer of SHS since 1989, and as a Director of SHS since 1996. Previously, Mr. Kimbrough, a certified public accountant, was employed by Ernst & Young LLP from 1980 to 1989.

KYLE J. CALLAHAN has served as Senior Vice President and a Director of Accredo since HHS was acquired by the Company in June 1997. Mr. Callahan has served as President of HHS since June 1997. From HHS's inception in 1990 until June 1997, Mr. Callahan served in several management and executive positions with HHS, including Vice President of Operations.

THOMAS W. BELL, JR. joined Accredo as Senior Vice President and General Counsel in July 1998 and was elected Secretary of the Company in October 1998. Prior to joining the Company, Mr. Bell practiced law from

1976 to 1998 as a member of the firm of Armstrong Allen Prewitt Gentry Johnston & Holmes, PLLC in Memphis, Tennessee, where Mr. Bell represented Nova Factor and SHS since their inception in 1990 and 1983, respectively.

KENNETH R. MASTERSON has been a Director of Accredo since April 1998. Mr. Masterson joined FedEx in 1980 and in 1996 he became Executive Vice President, General Counsel and Secretary of FedEx. In 1998, Mr. Masterson assumed the same duties for FDX Corporation, a transportation holding company and the parent company of FedEx. Mr. Masterson is also a director of Thomas & Betts Corporation.

KENNETH J. MELKUS has been a Director of Accredo since October 1997. Mr. Melkus currently serves as a consultant to WCA Management Corporation, an affiliate of WCAS VII. From its founding in 1993 to its sale in 1996, Mr. Melkus

served as Chairman of the Board and Chief Executive Officer of HealthWise of America, Inc., an operator of health maintenance organizations. From 1986 until 1993, Mr. Melkus served as Vice Chairman and President of Surgical Care Affiliates, Inc., an operator of outpatient surgery centers. Mr. Melkus is also a director of Quorum Health Group, Inc.

ANDREW M. PAUL has been a Director of Accredo since 1996. Mr. Paul joined Welsh Carson in 1984 and is a general partner of the sole general partner of WCAS VII and an affiliated entity that are stockholders of the Company. Mr. Paul also is a director of Lincare, Inc., Centennial HealthCare Corporation and several privately held companies.

PATRICK J. WELSH has been a Director of Accredo since June 1997. Mr. Welsh was a founder of Welsh Carson in 1979 and is a general partner of the sole general partner of WCAS VII and an affiliated entity that are stockholders of the Company. Prior to 1979, Mr. Welsh was president and a Director of Citicorp Venture Capital, Ltd., an affiliate of Citicorp engaged in venture capital investing. Mr. Welsh also serves as a director of several private companies.

Upon completion of the Offering, the Board of Directors will be divided into three classes, each consisting of approximately one-third of the total number of directors. There are currently seven directors. Class I directors, consisting of Messrs. Stevens and Melkus, will hold office until the 1999 annual meeting of stockholders; Class II directors, consisting of Messrs. Paul and Callahan, will hold office until the 2000 annual meeting of stockholders; and Class III directors, consisting of Messrs. Welsh, Grow and Masterson, will hold office until the 2001 annual meeting of stockholders. See "Description of Capital Stock--Special Provisions of the Certificate of Incorporation, Bylaws and Delaware Law."

Mr. Callahan was elected to the Board of Directors in connection with the Company's acquisition of HHS in 1997. Mr. Callahan's employment agreement provides that he may terminate his employment for "good reason" (as defined in the employment agreement) if he is willing to serve but is not elected to the Board of Directors of the Company while WCAS VII owns a majority of the outstanding Common Stock of the Company and the Company has not consummated an initial public offering. Pursuant to a letter dated June 3, 1997, WCAS VII agreed to vote its shares of Common Stock to elect Mr. Callahan to the Board of Directors of the Company, and Mr. Callahan was elected to the Board on June 30, 1997. See "Certain Transactions."

COMMITTEES OF THE BOARD OF DIRECTORS

The Board of Directors currently includes a Compensation Committee and an Audit Committee. The Compensation Committee, which is composed of Messrs. Welsh and Paul, is responsible for the approval of compensation arrangements for executive officers of the Company and administers the Company's stock option and employee stock purchase plans. The Audit Committee, which is composed of Messrs. Masterson and Melkus, reviews the scope and results of audits and other services performed by the independent public accountants of the Company and reviews the adequacy of the Company's internal controls.

COMPENSATION OF DIRECTORS

Employees of the Company who are members of the Board of Directors do not receive any compensation for serving on the Board of Directors. Each non-employee member of the Board of Directors receives a fee of $1,500 for each meeting attended. All directors of the Company, including members who are employees, receive reimbursement of out-of-pocket expenses incurred in connection with attending meetings. In addition, all directors of the Company are eligible to receive grants of stock options or other awards pursuant to the Company's stock option plans. During the fiscal year ended June 30, 1998, Messrs. Welsh, Paul, Melkus and Masterson each received a grant of a ten-year non-qualified stock option for 20,000 shares of Common Stock at an exercise price of $6.00 per share. All of such options vest at an annual rate of 25%, with the first 25% vesting on the first anniversary of the date of grant.

EXECUTIVE COMPENSATION

The following table summarizes the compensation paid by the Company for services rendered for the fiscal year ended June 30, 1998 with respect to the Company's Chief Executive Officer and the Company's other executive officers whose total salary and bonus for the fiscal year ended June 30, 1998 exceeded $100,000 (collectively, the "Named Executive Officers").

SUMMARY COMPENSATION TABLE

<TABLE>
<CAPTION>

LONG-TERM

NAME AND PRINCIPAL POSITION	FISCAL YEAR	ANNUAL COMPENSATION SALARY($)	BONUS($)	OTHER ANNUAL COMPENSATION($)(1)	COMPENSATION AWARDS RESTRICTED STOCK AWARD(S)($)	SECURITIES UNDERLYING OPTIONS(#)	ALL OTHER COMPENSATION($)(2)
David D. Stevens..... Chairman of the Board and Chief Executive Officer	1998	$ 250,938	$ 45,360	--	--		$ 4,657
John R. Grow..... President	1998	167,269	30,600	--	--		4,525
Joel R. Kimbrough..... Senior Vice President, Chief Financial Officer and Treasurer	1998	159,306	29,430	--	--		3,587
Kyle J. Callahan..... Senior Vice President	1998	160,621	29,430	--	--	40,000	3,740

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(1) Excludes perquisites and other personal benefits which for each Named Executive Officer during any such year did not exceed the lesser of $50,000 or 10% of such individual's salary plus annual bonus.

(2) Includes contributions by the Company under its 401(k) Plan on behalf of Messrs. Stevens, Grow, Kimbrough and Callahan in the amount of $3,749; $3,192; $2,909; and $3,592, respectively. Also includes insurance premiums paid by the Company with respect to term life insurance for the benefit of Messrs. Stevens, Grow, Kimbrough and Callahan in the amount of $908; $1,333; $678; and $148, respectively.

OPTION GRANTS

The following table sets forth certain information regarding options granted by the Company to the Named Executive Officers during the fiscal year ended June 30, 1998.

OPTIONS/SAR GRANTS IN LAST FISCAL YEAR

NAME	INDIVIDUAL GRANTS NUMBER OF SHARES UNDERLYING OPTIONS GRANTED(#)	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE PRICE ($/SHARE)	EXPIRATION DATE	GRANT DATE PRESENT VALUE($)(1)
David D. Stevens.....	--	--	--	--	--
John R. Grow.....	--	--	--	--	--
Joel R. Kimbrough.....	--	--	--	--	--
Kyle J. Callahan(2).....	30,000	28.2%	$6.00	9/3/07	$ 97,950
	10,000	9.4%	6.00	2/9/08	32,300

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(1) These values were determined using the Black-Scholes methodology and the assumptions described in Note 10 to the Company's Consolidated Financial

Statements included in this Prospectus.

(2) Mr. Callahan was granted an incentive stock option to purchase 30,000 shares of Common Stock (divided into 15,000 Tranche A option shares and 15,000 Tranche B option shares) and an incentive stock option to purchase 10,000 shares of Common Stock (divided into 7,000 Tranche A option shares and 3,000 Tranche B option shares) on September 3, 1997 and February 9, 1998, respectively. The exercise price per share of each option was equal to the fair market value of the Common Stock on the respective dates of grant, as determined by the Board of Directors. Pursuant to each option, the option shares subject to Tranche A will vest at an annual rate of 25%, and the option shares subject to Tranche B will vest in 2002 (or at an annual rate of 25% in the event the Company meets certain performance goals based upon target earning levels). The options will vest immediately upon certain changes in control of the Company. The term of each option expires ten years from the date of grant (or earlier, in the event the optionee ceases to be employed by the Company or any subsidiary or parent thereof).

OPTION EXERCISES AND YEAR END OPTION VALUES

The following table provides information with respect to options exercised by the Named Executive Officers during the fiscal year ended June 30, 1998 and the value of unexercised options held by the Named Executive Officers as of June 30, 1998.

AGGREGATED OPTION/SAR EXERCISES IN LAST FISCAL YEAR
AND FISCAL YEAR-END OPTION/SAR VALUES

<TABLE>
<CAPTION>

NAME	NUMBER OF SHARES ACQUIRED ON EXERCISE(#)	VALUE REALIZED($)	NUMBER OF SHARES UNDERLYING UNEXERCISED OPTIONS AT FISCAL YEAR END 1998(#) EXERCISABLE/UNEXERCISABLE	VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT FISCAL YEAR END 1998($)(1) EXERCISABLE/UNEXERCISABLE
<S>	<C>	<C>	<C>	<C>
David D. Stevens.....	--	--	95,000/176,429	$ 1,235,000/$2,293,577
John R. Grow.....	--	--	47,500/88,214	617,500/1,146,782
Joel R. Kimbrough.....	--	--	47,500/88,214	617,500/1,146,782
Kyle J. Callahan.....	--	--	3,750/36,250	37,500/362,500

</TABLE>

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(1) For purposes of this calculation, value is based upon the difference between the exercise price and the assumed initial public offering price of $16.00 per share.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Messrs. Welsh and Paul, who presently serve as members of the Compensation Committee of the Board of Directors, served on the Compensation Committee during the fiscal year ended June 30, 1998. Neither Messrs. Welsh or Paul, nor any executive officer of the Company, serves as a member of a board of directors or compensation committee of any entity that has one or more executive officers serving as a member of the Company's Board of Directors.

EMPLOYMENT AGREEMENTS

The Company has entered into employment agreements with Messrs. Stevens, Grow and Kimbrough as of May 31, 1996, and with Mr. Bell as of July 10, 1998. HHS, a wholly owned subsidiary of the Company, entered into an employment agreement with Mr. Callahan as of June 5, 1997. The terms of such employment agreements expire on May 31, 1999 (with respect to Messrs. Stevens, Grow and Kimbrough), June 1, 2000 (with respect to Mr. Callahan), and June 30, 2001 (with respect to Mr. Bell), although each employment agreement is subject to automatic one-year renewals. The Company may terminate the employment agreements at any time. Each employment agreement provides that in the event the Company terminates the executive's employment without "cause" (as defined therein) and other than by reason of his death or disability, or in the event the executive terminates his or her employment for "good reason" (as defined therein), the executive shall continue to receive his or her salary as a severance payment for a certain period of time (one year, with respect to Messrs. Stevens, Grow, Kimbrough and Bell, and 18 months, with respect to Mr. Callahan). In addition, upon such termination, Messrs. Stevens, Grow, Kimbrough and Bell would be entitled to continue to participate in the Company's benefit plans for a period of one year (or until the commencement of other full-time employment, whichever is earlier).

The employment agreements entitle Messrs. Stevens, Grow, Kimbrough, Bell and Callahan to annual base salaries presently set at $264,600, $178,500, $173,300, $168,000 and $171,675, respectively. Each employment agreement also provides for the payment of an annual bonus of up to 50% of salary with respect to Messrs.

Stevens, Grow, Kimbrough and Callahan and up to 40% of salary with respect to Mr. Bell, based upon the extent to which the Company achieves certain performance goals based upon target earning levels established by the Board of Directors. Each of the employment agreements entitles the executive to all benefits provided by the Company for its senior executives. In addition, the Company has agreed to maintain $500,000 in term life insurance for each of Messrs. Stevens, Grow, Kimbrough and Bell, payable to their respective named beneficiaries.

Each of the employment agreements prohibits the executive's disclosure and use of confidential information and restricts, for certain periods of time following termination of employment (12 months, with respect to Messrs. Stevens, Grow, Kimbrough and Bell, and 36 months, with respect to Mr. Callahan), his solicitation of certain employees of the Company, conduct of certain business with the Company's five largest suppliers, or competition with the Company.

LONG-TERM INCENTIVE PLAN

Prior to the completion of the Offering, the Accredo Health, Incorporated 1999 Long-Term Incentive Plan (the "Incentive Plan") will be adopted by the Board of Directors of the Company and will be approved by the Company's stockholders. A summary of the Incentive Plan is set forth below. The summary is qualified in its entirety by reference to the full text of the Incentive Plan, a copy of which is included as an exhibit to the Registration Statement of which this Prospectus is a part.

The purpose of the Incentive Plan is to promote the success, and enhance the value, of the Company by linking the personal interests of employees, officers, consultants and directors to those of the stockholders, and by providing such persons with an incentive for outstanding performance. Upon completion of the Offering, approximately 40 persons will be eligible to participate in the Incentive Plan.

The Incentive Plan authorizes the granting of awards ("Awards") to employees, officers, consultants and directors of the Company or its subsidiaries in the following forms: (i) options to purchase shares of Common Stock ("Options"), which may be incentive stock options that meet the requirements of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code") ("ISOs") or non-qualified stock options ("NQSOs"), (ii) stock appreciation rights ("SARs"); (iii) performance units ("Performance Units"); (iv) restricted stock ("Restricted Stock"); (v) dividend equivalent rights; and (vi) other stock-based awards. Subject to adjustment as provided in the Incentive Plan, the aggregate number of shares of Common Stock reserved and available for Awards or which may be used to provide a basis of measurement for or to determine the value of an Award (such as with a SAR or Performance Share) is 500,000. The maximum number of shares of Common Stock with respect to one or more Options and/or SARs that may be granted during any one calendar year under the Incentive Plan to any one participant is 500,000. The maximum fair market value of any Awards (other than Options and SARs) that may be received by a participant (less any consideration paid by the participant for such Award) during any one calendar year under the Incentive Plan is $2,000,000.

The Incentive Plan is administered by the Compensation Committee, which has the power, authority and discretion to designate participants; determine the type or types of Awards to be granted to each participant and the terms and conditions thereof; establish, adopt or revise any rules and regulations as it may deem necessary or advisable to administer the Incentive Plan; and make all other decisions and determinations that may be required under, or as it deems necessary or advisable to administer, the Incentive Plan. The Board or the Compensation Committee may, at any time and from time to time, terminate, amend or modify the Incentive Plan without stockholder approval. No termination, amendment, or modification of the Incentive Plan may adversely affect any Award previously granted under the Incentive Plan, without the consent of the participant.

Upon the participant's death or disability during his or her employment or his or her service as a director, all outstanding Options, SARs, and other Awards in the nature of rights that may be exercised will become fully vested and exercisable and all restrictions on outstanding Awards will lapse. In addition, in the event of a Change in Control of the Company (as defined in the Incentive Plan), all outstanding Options, SARs, and other Awards in the nature of rights that may be exercised will become fully vested and exercisable and all restrictions on all outstanding Awards will lapse. Unexercised or restricted Awards generally will not be assignable or transferable by a participant other than by will or the laws of descent and distribution or, except in the case of an ISO, pursuant to a qualifying domestic relations order.

Pursuant to Section 162(m) of the Code, the Company may not deduct

compensation in excess of $1.0 million paid to the Chief Executive Officer and the four next most highly compensated executive officers of the Company. The Incentive Plan is designed to comply with Code Section 162(m) so that the grant of Options and SARs under the Incentive Plan, and other Awards, such as Performance Shares, that are conditioned on the performance goals described in the Incentive Plan, will be excluded from the calculation of annual compensation for purposes of Code Section 162(m) and will be fully deductible by the Company.

STOCK OPTION AND RESTRICTED STOCK PURCHASE PLAN

The Nova Holdings, Inc. and its Subsidiaries Stock Option and Restricted Stock Purchase Plan, as amended and restated (the "Option Plan"), became effective as of May 31, 1996, the date of its original adoption by the Board of Directors of the Company. The amendment and restatement of the Option Plan was approved by the Company's stockholders on June 30, 1997. A summary of the Plan is set forth below. The summary is qualified in its entirety by reference to the full text of the Plan, a copy of which is included as an exhibit to the Registration Statement of which this Prospectus is a part.

The Option Plan authorizes the granting of options to purchase shares of Common Stock, which may be ISOs or NQSOs, and other related awards, to employees, officers, and directors of the Company or its subsidiaries. Subject to adjustment as provided in the Option Plan, the aggregate number of shares of Common Stock for which Options or awards may be granted under the Option Plan is 965,000. As of December 31, 1998, there were approximately 35 persons eligible to participate in the Plan.

The Option Plan is administered by the Compensation Committee, which has the power, authority and discretion to designate participants, determine the type or types of awards to be granted to each participant and the terms and conditions thereof, and establish any other terms, restrictions and conditions applicable to any option or award not inconsistent with the provisions of the Option Plan. The Board or the Compensation Committee may, at any time and from time to time, terminate, amend or modify the Option Plan without stockholder approval; provided that stockholder approval shall be required in the case of an amendment to increase the aggregate number of shares issuable subject to the Option Plan, to decrease the minimum exercise price in respect of ISOs, or to change the class of employees eligible to receive ISOs under the Option Plan. No termination, amendment, or modification of the Option Plan may adversely affect any option or award previously granted under the Option Plan, without the consent of the participant.

EMPLOYEE STOCK PURCHASE PLAN

Prior to the completion of the Offering, the Accredo Health, Incorporated 1999 Employee Stock Purchase Plan (the "ESPP") will be adopted by the Board of Directors of the Company and approved by the Company's stockholders. The purpose of the ESPP, which is intended to qualify as an employee stock purchase plan under Section 423 of the Code, is to enhance the proprietary interest among the employees of the Company and its participating subsidiaries through ownership of Common Stock of the Company. A summary of the ESPP is set forth below. The summary is qualified in its entirety by reference to the full text of the ESPP, a copy of which is included as an exhibit to the Registration Statement of which this Prospectus is a part.

Pursuant to the ESPP, eligible employees make contributions, through payroll deductions, to a plan account during a six-month "offering period." The offering periods commence and end on or about January 1 to June 30 and July 1 to December 31 of each year, provided that the first offering period will commence on the date of the initial public offering of the Company's Common Stock and end on December 31, 1999. On the first business day of each offering period, the Company will grant to each participant in the ESPP an option to purchase, on the last day of such offering period, a maximum of 2,500 shares of Common Stock. No option will be granted to a participant if such option, when combined with all other options granted under all of the Code Section 423 employee stock purchase plans of the Company, its parents and its subsidiary corporations, would permit such participant to purchase shares of Common Stock of the Company having a fair market value in excess of $25,000 per year.

The participant will be entitled to exercise such option to the extent of the participant's accumulated payroll deductions on the last day of such offering period; provided, however, that if the participant's accumulated payroll deductions on the last day of the offering period would enable the participant to purchase more than 2,500 shares, the excess of the amount of the accumulated payroll deductions over the aggregate purchase price of the shares will be refunded to the participant, without interest. The option price for each offering period will be the lesser of (i) 85% of the fair market value of the Common Stock on the first business day of the offering period, or (ii) 85% of

the fair market value of the Common Stock on the last business day of the offering period. Employees may authorize payroll deductions in amounts not less than one percent (1%) but not more than ten percent (10%) of their respective total compensation, including base pay or salary and any bonuses or commissions.

Each employee of the Company and each employee of any participating subsidiary is eligible to participate in the ESPP, provided such employee: (i) is regularly scheduled to work at least 20 hours each week and at least five months in the calendar year, and (ii) immediately after the grant of an option to him or her under the ESPP would own less than five percent of the total combined voting power or value of all classes of stock of the Company or any of its subsidiaries. Upon completion of the Offering, approximately 300 employees will be eligible to participate in the ESPP.

Shares subject to the ESPP may be authorized but unissued shares or shares that were once issued and subsequently reacquired by the Company. The total number of shares of Common Stock for which options may be granted under the ESPP is 135,000 shares, subject to adjustment in accordance with the ESPP.

The ESPP will be administered by the Compensation Committee or the Board of Directors, which will have authority to interpret and administer the ESPP. The ESPP may be terminated at any time by the Board, but such termination will not affect options then outstanding. The ESPP will terminate in any case when all or substantially all of the unissued shares of stock reserved for the purposes of the ESPP have been purchased. If at any time shares of stock reserved for the ESPP remain available for purchase but not in sufficient number to satisfy all then unfilled purchase requirements, the available shares will be apportioned among participants in proportion to their options and the ESPP will terminate. Upon termination, all payroll deductions not used to purchase stock will be refunded. The Committee or the Board may from time to time amend the ESPP provided that, without the approval of the stockholders, no amendment may (i) materially affect the eligibility requirements or the definition of "Employer," (ii) increase the number of shares of Common Stock subject to any options issued to participants, or (iii) materially increase the benefits to participants under the Plan.

An employee's rights under the ESPP will terminate when he or she ceases to be an employee for any reason, and the cash balance in his or her contribution account will be distributed to such employee (or his or her designated beneficiary). An employee's rights under the ESPP may not be transferred other than by will or the laws of descent and distribution. Any option granted under the ESPP to an employee may be exercised, during the employee's lifetime, only by the employee.

401(K) PLAN

The Company sponsors a defined contribution plan (the "401(k) Plan") for eligible employees of the Company under Section 401(k) of the Code. Substantially all the Company's employees who have attained the age of 21 and who have completed at least three months of service are eligible to participate in the 401(k) Plan. Participants may contribute up to 18% of their annual compensation to the 401(k) Plan, subject to certain limitations. All contributions made by participants are fully vested and are not subject to forfeiture. The Company makes matching contributions to the 401(k) Plan on behalf of each eligible participant based upon the participant's total years of service with the Company. The Company matches 25% of "eligible contributions" (as defined in the 401(k) Plan) made by participants with less than five years of service, and 50% of eligible contributions made by participants with five or more years of service.

CERTAIN TRANSACTIONS

INITIAL FORMATION, CAPITALIZATION AND ACQUISITION OF SHS

In May 1996, the Company (formerly known as Nova Holdings, Inc.) was formed for the purpose of acquiring all of the outstanding equity securities of SHS, then a subsidiary of Le Bonheur. In connection with the initial capitalization of the Company, Welsh Carson purchased an aggregate of 4,972,534 shares of the Company's Common Stock for $14,917,602 and an aggregate of 248,624 shares of Series A Preferred Stock for $24,862,400. Additional investors purchased a total of 27,466 shares of the Company's Common Stock for $82,398 and 1,376 shares of Series A Preferred Stock for $137,600. In connection with the Recapitalization, Welsh Carson will exchange 1,100,000 shares of Common Stock for 1,100,000 shares of Non-Voting Common Stock. All outstanding shares of Series A Preferred Stock will be redeemed by the Company with a portion of the net proceeds from the Offering and possibly together with other available Company funds.

On May 31, 1996, the Company acquired all of the outstanding Class A Common Stock and Class B Common Stock of SHS (the "SHS Common Stock"). Prior to the Company's purchase of the SHS Common Stock, SHS spun-off its three subsidiaries other than Nova Factor and repurchased certain shares of SHS Common Stock held by persons other than Le Bonheur. In addition, Messrs. Grow, Kimbrough and Stevens (in addition to certain other holders of SHS Common Stock) exchanged their shares of SHS Common Stock for 19,560, 12,225 and 61,125 shares of the Company's Common Stock, respectively, and 978, 611 and 3,056 shares of Series A Preferred Stock, respectively.

REGISTRATION RIGHTS AGREEMENT

In connection with the formation of the Company in May 1996, Welsh Carson entered into a Registration Rights Agreement with the Company (the "Registration Rights Agreement"). The Registration Rights Agreement provides for demand registration rights that may be exercised on up to two occasions by the holders of Restricted Stock (as defined therein, which definition includes substantially all shares of Common Stock outstanding prior to the Offering) constituting at least a majority of the total Restricted Stock outstanding at the time of exercise. The Registration Rights Agreement also provides unlimited demand registration rights to holders of Restricted Stock for registrations on Form S-3, so long as the reasonably anticipated aggregate price to the public of such offering is at least $1.0 million; provided, however, that such demand registrations may not be exercised more than once every 180 days. No registration effected pursuant to these unlimited demand registration rights on Form S-3 will be counted toward the limit of two demand registration rights referred to above.

The Registration Rights Agreement also provides that, subject to certain limitations including the discretion of the managing underwriter in an underwritten offering, holders of Restricted Stock may request inclusion of their shares in a registration of securities initiated by the Company. The Company is required to pay all costs of any registration pursuant to the Registration Rights Agreement, subject to certain limitations provided in the agreement. All of the parties to the Registration Rights Agreement have waived any right to participate in this Offering.

All shares of Common Stock owned by the executive officers and directors of the Company are shares of Restricted Stock as such term is defined in the Registration Rights Agreement and are, therefore, subject to the above described registration rights.

ACQUISITION OF HHS

In June 1997, the Company purchased all of the outstanding shares of common stock of HHS for an aggregate purchase price of approximately $29,996,000. Dianne R. Griffith, the mother of Mr. Callahan, was a significant stockholder of HHS and received a material economic benefit from the transaction. See Note 3 of the Notes to the Company's Consolidated Financial Statements. Of the consideration received by the selling shareholders, $2,070,400 is currently being held in two escrow accounts to secure potential indemnification

claims for breaches of the sellers' representations and warranties and to satisfy certain accounts payable of HHS that had not been resolved at closing. Absent a claim for indemnification, $1,450,000 will be paid out of escrow to the selling shareholders on June 5, 1999. Any remaining amounts in escrow will be paid to the selling shareholders, including Ms. Griffith, upon a resolution of the accounts payable amount. Ms. Griffith also entered into a three month consulting agreement with the Company pursuant to which she provided certain consulting services to the Company in exchange for a total of $26,500.

Ms. Griffith leases approximately 24,000 square feet of office space located in Nashville, Tennessee to HHS pursuant to a lease that expires on October 31, 1999. The Company is obligated under the lease to make annual rent payments to Ms. Griffith in the amount of $302,277.

Also in connection with the acquisition of HHS, the Company entered into an employment agreement and a stock option agreement with Mr. Callahan. See "Management--Executive Compensation" and "--Employment Agreements." Mr. Callahan's employment agreement permits him to terminate his employment for "good reason", including if he is willing to serve and he is not elected to the Board of Directors of the Company while WCAS VII owns a majority of the outstanding Common Stock and the Company has not consummated an initial public offering. Pursuant to a letter dated June 3, 1997, WCAS VII agreed to vote its shares of Common Stock to elect Mr. Callahan to the Board of Directors of the Company, and Mr. Callahan was elected to the Board on June 30, 1997. Also, on October 1, 1997, Mr. Callahan purchased 41,667 shares of Common Stock for a total purchase price of $250,002 and was granted registration rights covering those shares with the same terms and conditions as those granted to Welsh Carson

in the Registration Rights Agreement.

10% SENIOR SUBORDINATED NOTES DUE JANUARY 1, 2004

On June 4, 1997, Welsh Carson purchased $10.0 million of the Company's Senior Subordinated Notes. The Senior Subordinated Notes bear interest at 10% and are due and payable in full on June 1, 2004, with interest payable thereon quarterly in arrears on the first day of March, June, September and December of each year commencing on September 1, 1997. At the option of the Company, the amount of interest due and payable through June 1, 1999 may be added to the unpaid principal balance of the Senior Subordinated Notes.

Upon the Company's prior written notice to the holders of the Senior Subordinated Notes, the Company may prepay all or any portion of the Senior Subordinated Notes. The Company is required to make certain mandatory prepayments of the Senior Subordinated Notes in full if at any time while the Senior Subordinated Notes are outstanding: (i) the Company merges or consolidates with or into another entity (subject to certain exceptions); (ii) the Company sells or otherwise disposes of substantially all of its assets to a third-party; or (iii) the Company consummates a public offering of equity securities pursuant to an effective registration statement under the Securities Act of 1933. The Company intends to prepay in full the entire principal balance of the Senior Subordinated Notes and all accrued interest thereon with a portion of the net proceeds of this Offering. See "Use of Proceeds."

In connection with the issuance of the Senior Subordinated Notes, the Company also issued to purchasers of the Senior Subordinated Notes 1 share of Common Stock for each $25 principal amount of Senior Subordinated Notes purchased, for a total of 400,000 shares of Common Stock.

COMMON STOCK PURCHASES BY AFFILIATES

In connection with the appointment of Mr. Melkus to the Company's Board of Directors, his daughter, Lauren Melkus, acquired 41,667 shares of Common Stock for $250,002 on October 27, 1997. In addition, Mr. Masterson, upon his appointment to the Company's Board of Directors, acquired 34,000 shares of Common Stock for $204,000 on July 24, 1998 pursuant to a subscription agreement entered into by Mr. Masterson in April 1998. Both Ms. Melkus and Mr. Masterson were granted registration rights covering those shares with the same terms and conditions as those granted to Welsh Carson in the Registration Rights Agreement. See "Certain Transactions--Registration Rights Agreement."

PRINCIPAL STOCKHOLDERS

The following table sets forth certain information regarding the beneficial ownership of the Company's Common Stock as of December 31, 1998, and as adjusted to reflect the sale of the shares of Common Stock offered hereby, by (i) each person known to the Company to beneficially own more than 5% percent of the outstanding Common Stock, (ii) each of the Company's directors, (iii) each of the Company's Named Executive Officers, and (iv) all directors and executive officers of the Company as a group.

<TABLE>
<CAPTION>

NAME	SHARES BENEFICIALLY OWNED(1)	PERCENTAGE OF SHARES BENEFICIALLY OWNED(1) BEFORE OFFERING	PERCENTAGE OF SHARES BENEFICIALLY OWNED(1) AFTER OFFERING
<S>	<C>	<C>	<C>
Welsh, Carson, Anderson & Stowe VII, L.P.(2)(3).....	5,372,534	95.5%	62.3%
David D. Stevens.....	156,125	2.7%	1.8%
Joel R. Kimbrough.....	59,725	1.1%	*
Kyle J. Callahan.....	45,417	*	*
John R. ("Randy") Grow.....	67,060	1.2%	*
Thomas W. Bell, Jr.....	--	--	--
Kenneth R. Masterson.....	34,000	*	*
Kenneth J. Melkus(4).....	46,667	*	*
Andrew W. Paul(2)(5).....	5,135,088	91.2%	59.5%
Patrick J. Welsh(2)(6).....	5,177,656	92.0%	60.0%
All directors and executive officers as a group (9 persons).....	5,611,891	96.2%	63.5%

</TABLE>

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* Less than one percent.

(1) The percentages shown are based on 5,625,587 shares of Common Stock outstanding prior to the Offering and 8,625,587 shares of Common Stock

(including Non-Voting Common Stock) outstanding after the Offering. Pursuant to the rules of the Commission, shares of Common Stock which a person has the right to acquire within 60 days pursuant to the exercise of stock options are deemed to be outstanding for the purpose of computing the percentage ownership of such person but are not deemed outstanding for the purpose of computing percentage ownership of any other person. Accordingly, the totals for the following persons include the following shares represented by options exercisable within 60 days of December 31, 1998: Mr. Stevens, 95,000 shares; Mr. Kimbrough, 47,500 shares; Mr. Callahan, 3,750 shares; Mr. Grow, 47,500 shares; Mr. Melkus, 5,000 shares; Mr. Paul, 5,000 shares; Mr. Welsh, 5,000 shares; and all directors and executive officers as a group, 208,750 shares.

(2) The business address of the named person is 320 Park Ave., Suite 2500, New York, New York 10022.

(3) Includes 101,273 shares of Common Stock owned by WCAS Healthcare Partners, L.P. , 1,100,000 shares of Non-Voting Common Stock held by WCAS VII and 262,687 shares of Common Stock held by individual general partners of a general partnership that is the sole general partner of WCAS VII. WCAS Healthcare Partners, L.P. is a limited partnership with two general partners: Russell L. Carson and Patrick J. Welsh. The sole general partner of WCAS VII is a general partnership with eleven general partners, including Messrs. Carson, Welsh and Paul. The additional general partners of the sole general partner of WCAS VII are Bruce K. Anderson, Thomas E. McInerney, Laura VanBuren, Robert A. Minicucci, Anthony J. deNicola, Paul B. Queally, Lawrence B. Sorrel, and Priscilla A. Newman.

(4) Includes 41,667 shares of Common Stock held by Mr. Melkus' daughter, Lauren Melkus.

(5) Includes those shares held directly and indirectly by WCAS VII except for shares owned by the individual general partners of the sole general partner of WCAS VII other than Mr. Paul. See footnote (3) above. Mr. Paul is a director of the Company and a general partner of the sole general partner of WCAS VII.

(6) Includes those shares held directly and indirectly by WCAS VII except for shares owned by the individual general partners of the sole general partner of WCAS VII other than Mr. Welsh. See footnote (3) above. Mr. Welsh is a director of the Company and a general partner of the sole general partner of WCAS VII.

DESCRIPTION OF CAPITAL STOCK

The following summary is a description of certain provisions of the Company's Amended and Restated Certificate of Incorporation (the "Certificate of Incorporation"). Such summary does not purport to be complete and is subject to, and is qualified in its entirety by, all of the provisions of the Certificate of Incorporation, a copy of which is included as an exhibit to the Registration Statement of which this Prospectus is a part.

Upon completion of the Offering, the Company's authorized capital stock will consist of 30,000,000 shares of Common Stock, $0.01 par value per share, 2,500,000 shares of Non-Voting Common Stock, $0.01 par value per share ("Non-Voting Common Stock"), and 5,000,000 shares of preferred stock, $1.00 par value per share ("Preferred Stock"), Currently, there are outstanding 5,627,087 shares of Common Stock and 255,361 shares of Series A Preferred Stock. All outstanding shares of Series A Preferred Stock will be redeemed by the Company using a portion of the net proceeds from the Offering. Upon completion of the Offering, the Company will have outstanding 8,627,087 shares of Common Stock (including 1,100,000 shares of Non-Voting Common Stock) and no shares of Preferred Stock.

COMMON STOCK

The holders of Common Stock are entitled to one vote per share on all matters to be voted on by stockholders and are not entitled to cumulative voting in the election of directors. The holders of Common Stock are entitled to share ratably in dividends, if any, as may be declared from time to time by the Board of Directors in its discretion out of funds legally available therefor. The Company currently anticipates that all of its earnings will be retained to finance the growth and development of its business and, therefore, does not

anticipate that any cash dividends will be declared on the Common Stock in the foreseeable future. See "Dividend Policy". The holders of Common Stock are entitled to share ratably in any assets remaining after satisfaction of all prior claims upon liquidation of the Company. The Certificate of Incorporation gives holders of Common Stock no preemptive or other subscription or conversion rights, and there are no redemption provisions with respect to such shares. All outstanding shares of Common Stock are, and the shares offered hereby will be, when issued and paid for, fully paid and nonassessable. The rights, preferences, and privileges of holders of Common Stock are subject to, and may be adversely affected by, the rights of holders of shares of any series of Preferred Stock which the Company may designate and issue in the future.

NON-VOTING COMMON STOCK

The shares of Non-Voting Common Stock to be issued to WCAS VII pursuant to the Recapitilization will be fully paid and nonassessable. Subject to the prior rights of the holders of any Preferred Stock, and on a pro rata basis with the holders of Common Stock, the holders of outstanding shares of Non-Voting Common Stock will be entitled to receive dividends out of assets legally available therefor at such time and in such amounts as the Board of Directors may from time to time determine. The shares of Non-Voting Common Stock will be convertible into Common Stock at any time provided that WCAS VII will not own 50% or more of the Common Stock after such conversion. In the event WCAS VII sells any Non-Voting Common Stock to third parties, such shares shall automatically convert to Common Stock. The holders of Non-Voting Common Stock will have no preemptive or subscription rights to purchase any securities of the Company. Upon liquidation, dissolution or winding up of the Company, and on a pro rata basis with the holders of Common Stock, the holders of Non-Voting Common Stock would be entitled to receive pro rata the assets of the Company that are legally available for distribution after payment of all debts and other liabilities and subject to the prior rights of any holders of Preferred Stock then outstanding. Holders of outstanding shares of Non-Voting Common Stock will not be entitled to vote such shares on any matter submitted to a vote of stockholders.

PREFERRED STOCK

Subject to conditions specified in the Certificate of Incorporation, the DGCL and other applicable law, the Board of Directors has the authority to issue undesignated Preferred Stock in one or more class or series and to determine the dividend rights, dividend rate, conversion rights, voting rights, redemption rights and terms,

liquidation preferences, sinking fund provisions, number of shares constituting any class or series, and designations of such class or series without any further vote or action by the stockholders of the Company. The Company has no present intention to issue any shares of Preferred Stock.

One of the effects of undesignated Preferred Stock is to enable the Board of Directors to render more difficult or to discourage an attempt to obtain control of the Company by means of a tender offer, proxy contest, merger or otherwise, and thereby to protect the continuity of the Company's management. For example, the Company could issue a series of Preferred Stock having characteristics that would make a takeover prohibitively expensive. The issuance of shares of the Preferred Stock pursuant to the Board of Directors' authority described above may adversely affect the rights of the holders of Common Stock. For example, Preferred Stock issued by the Company may rank senior to the Common Stock as to dividend rights, liquidation preference or both, may have full or unlimited voting rights and may be convertible into shares of Common Stock. Accordingly, the issuance of shares of Preferred Stock may discourage bids for the Common Stock or may otherwise adversely affect the market price of the Common Stock.

SPECIAL PROVISIONS OF THE CERTIFICATE OF INCORPORATION, BYLAWS AND DELAWARE LAW

Certain provisions of the Certificate of Incorporation and the Company's Amended and Restated Bylaws (the "Bylaws") may be deemed to have an anti-takeover effect or may delay, defer or prevent a tender offer or takeover attempt that a stockholder might consider in such stockholder's best interest, including those attempts that might result in a premium over the market price for the shares held by such stockholder.

DELAWARE ANTI-TAKEOVER LAW. Section 203 of the DGCL ("Section 203") applies to the Company and generally provides that a person who, together with affiliates and associates owns, or within three years did own, 15% or more of the outstanding voting stock of a corporation subject to the statute (an "Interested Stockholder"), but less than 85% of such stock, may not engage in certain business combinations with the corporation for a period of three years after the date on which the person became an Interested Stockholder unless (i) prior to such date, the corporation's board of directors approved either the business combination or the transaction in which the stockholder became an Interested Stockholder, (ii) the Interested Stockholder acquired 85% or more of the outstanding voting stock of the corporation in the same transaction that makes such person an Interested Stockholder (excluding shares owned by persons

who are both officers and directors of the corporation, and shares held by certain employee stock ownership plans), or (iii) subsequent to such date, the business combination is approved by the corporation's board of directors and authorized at a stockholders' meeting by a vote of at least two-thirds of the corporation's outstanding voting stock not owned by the Interested Stockholder. Section 203 defines the term "business combination" to encompass a wide variety of transactions with or caused by an Interested Stockholder, including mergers, asset sales, and other transactions in which the Interested Stockholder receives or could receive a benefit on other than a pro rata basis with other stockholders.

The Company's stockholders, by adopting an amendment to the Certificate of Incorporation, may elect not to be governed by Section 203, which election would be effective 12 months after such adoption. Neither the Certificate of Incorporation nor the Bylaws presently exclude the Company from the restrictions imposed by Section 203, and the restrictions imposed by Section 203 apply to the Company. The provisions of Section 203 could delay or frustrate a change in control of the Company, deny stockholders the receipt of a premium on their Common Stock and have a depressing effect on the market price of the Common Stock. The provisions also could discourage, impede or prevent a merger, tender offer or proxy contest, even if such event would be favorable to the interests of stockholders.

CLASSIFIED BOARD OF DIRECTORS. Prior to the completion of the Offering, the Certificate of Incorporation will provide for the Board of Directors to be divided into three classes of directors serving staggered three-year terms. A director may be removed from office prior to the expiration of his or her term only "for cause," so any person acquiring control of the Company would need three annual meetings to replace all of the members of the Board of Directors. The classified board provision of the Certificate of Incorporation could have the effect of making the removal of incumbent directors more time-consuming and difficult, and, therefore discouraging a

third party from making a tender offer or otherwise attempting to obtain control of the Company, even though such an attempt might be beneficial to the Company and its stockholders. Thus, the classified board provision could increase the likelihood that incumbent directors will retain their positions. The Company believes that a classified Board of Directors will help to assure the continuity and stability of the Board of Directors and of the business strategies and policies of the Company as determined by the Board of Directors. See "Management."

NUMBER OF DIRECTORS; REMOVAL; FILLING VACANCIES. The Certificate of Incorporation and Bylaws provide that the number of directors will be fixed from time to time with the consent of two-thirds of the Board of Directors. Moreover, the Certificate of Incorporation provides that directors may only be removed with cause by the affirmative vote of the holders of at least a majority of the outstanding shares of capital stock of the Company then entitled to vote at an election of directors. This provision prevents stockholders from removing any incumbent director without cause and allows two-thirds of the incumbent directors to add additional directors without approval of stockholders until the next annual meeting of stockholders at which directors of that class are elected.

ADVANCE NOTICE OF NOMINATIONS AND STOCKHOLDER PROPOSALS. The Bylaws contain a provision requiring at least 60 but no more than 90 days advance notice by a stockholder of a proposal or director nomination that such stockholder desires to present at any annual or special meeting of stockholders, which would prevent a stockholder from making a proposal or a director nomination at a stockholder meeting without the Company having advance notice of the proposal or director nomination. This provision could make a change in control more difficult by providing the directors of the Company with more time to prepare an opposition to a proposed change in control.

VOTE REQUIREMENT FOR CALLING SPECIAL MEETING. The Bylaws also contain a provision requiring the vote of the holders of two-thirds of the outstanding Common Stock in order to call a special meeting of stockholders. This provision would prevent a stockholder with less than a two-thirds interest from calling a special meeting to consider a merger unless such stockholder had first garnered adequate support from a sufficient number of other stockholders.

LIMITATION OF LIABILITY AND INDEMNIFICATION

LIMITATIONS OF DIRECTOR LIABILITY. Section 102(b)(7) of the DGCL authorizes corporations to limit or to eliminate the personal liability of directors to corporations and their stockholders for monetary damages for breach of directors' fiduciary duty of care. Although Section 102(b) of the DGCL does not change directors' duty of care, it enables corporations to limit available relief to equitable remedies such as injunction or rescission. The Certificate of Incorporation limits the liability of directors to the Company or its stockholders to the full extent permitted by such Section 102(b). Specifically, directors of the Company are not to be personally liable for monetary damages for breach of a director's fiduciary duty as a director, except for liability:

(i) for any breach of the director's duty of loyalty to the Company or its stockholders, (ii) for acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law, (iii) for unlawful payments of dividends or unlawful stock repurchases or redemptions as provided in Section 174 of the DGCL, or (iv) for any transaction from which the director derived an improper personal benefit.

INDEMNIFICATION. To the maximum extent permitted by law, the Certificate of Incorporation provides for mandatory indemnification of directors and officers of the Company against any expense, liability or loss to which they may become subject, or which they may incur, as a result of being or having been a director or officer of the Company. In addition, the Company must advance or reimburse directors and officers for expenses incurred by them in connection with indemnifiable claims.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Common Stock is American Stock Transfer & Trust Company.

SHARES ELIGIBLE FOR FUTURE SALE

Upon completion of the Offering, the Company will have outstanding 8,627,087 shares of Common Stock (9,077,087 shares, if the Underwriters' over-allotment option is exercised in full, excluding 899,286 shares reserved for issuance upon the exercise of outstanding stock options). Of these shares, all of the 3,000,000 shares sold in the Offering (3,450,000 shares, if the Underwriters' over-allotment option is exercised in full) will be freely tradable without restriction or further registration under the Securities Act, unless held by "affiliates" of the Company as that term is defined in Rule 144 under the Securities Act. The remaining 5,627,087 shares outstanding are "restricted securities" as that term is defined under Rule 144 and were issued by the Company in one or more private transactions in reliance upon one or more exemptions under the Securities Act. Such restricted securities may not be resold in the public market in the absence of registration under the Securities Act or the availability of an exemption from such registration, including the exemption provided by Rule 144.

In general, under Rule 144 a person (or persons whose shares are aggregated), including an affiliate of the Company, who has beneficially owned restricted securities for at least one year is entitled to sell within any three-month period a number of shares that does not exceed the greater of the average weekly trading volume during the four calendar weeks preceding such sale or 1% of the then outstanding shares of Common Stock, provided certain manner of sale and notice requirements and requirements as to the availability of current public information about the Company are satisfied. In addition, affiliates of the Company must comply with the restrictions and requirements of Rule 144, other than the one-year holding period, to sell unrestricted shares of Common Stock. A person who is deemed not to have been an "affiliate" of the Company at any time during the 90 days preceding a sale by such person, and who has beneficially owned such shares for at least two years, would be entitled to sell such shares without regard to the limitations described above. Taking into consideration the effect of the 180-day lock-up agreements described below, no restricted shares of Common Stock will be eligible for sale in the public market immediately after the Offering. However, restricted shares will be eligible for sale upon the expiration of the 180-day lock-up agreements, subject to the volume and other limitations of Rule 144.

In addition to the outstanding shares of Common Stock, upon completion of the Offering 698,214 shares of Common Stock will be reserved for future stock awards under the Company's stock option and employee stock purchase plans and 899,286 shares of Common Stock will be reserved for issuance upon the exercise of outstanding options. The Company intends to register on Form S-8 under the Securities Act as soon as practicable on and after the effective date of the Offering all of the 1,600,000 shares reserved for issuance pursuant to these plans. This registration statement will be effective upon filing. Shares registered and issued pursuant to this registration statement will be freely tradable except to the extent that the holders thereof are deemed to be affiliates of the Company, in which case the transferability of such shares will be subject to the volume limitations of Rule 144, and except to the extent that the holders thereof are subject to the lock-up agreements described below.

Subject to certain exceptions, the Company, its directors and executive officers and certain holders of outstanding shares of Common Stock and optionees holding options to purchase a total of 899,286 shares of Common Stock have agreed, subject to certain exceptions, with the Underwriters not to sell or otherwise dispose of any shares of Common Stock, any options to purchase Common Stock or any securities convertible into, or exchangeable for, shares of Common

Stock for a period of 180 days after the date of this Prospectus without the prior written consent of Hambrecht & Quist LLC.

Following the consummation of the Offering and subject to the lock-up agreements, certain stockholders will be entitled to require the Company to register under the Securities Act a total of 5,627,087 shares of outstanding Common Stock (the "Registrable Shares"). In addition, in the event the Company proposes to register any of its securities under the Securities Act, either for its own account or for the account of a security holder, such stockholders may be entitled to include the Registrable Shares in such registration, subject to certain limitations on the number of shares to be included in the registration by the underwriter of such Offering. See "Certain Transactions--Registration Rights Agreement."

Sales of substantial amounts of shares of Common Stock in the public market, or the perception that such sale might occur, could adversely affect the market price of the Common Stock and could impair the Company's future ability to raise capital through an offering of its equity securities. See "Risk Factors-Shares Eligible for Future Sale."

UNDERWRITING

Subject to the terms and conditions of the Underwriting Agreement, the Underwriters named below through their Representatives, Hambrecht & Quist LLC, NationsBanc Montgomery Securities LLC and SunTrust Equitable Securities Corporation have severally agreed to purchase from the Company the following respective number of shares of Common Stock:

<TABLE>
<CAPTION>

NAME	NUMBER OF SHARES
<S>	<C>
Hambrecht & Quist LLC.....	
NationsBanc Montgomery Securities LLC.....	
SunTrust Equitable Securities Corporation.....	
Total.....	3,000,000

</TABLE>

The Underwriting Agreement provides that the obligations of the Underwriters are subject to certain conditions precedent, including the absence of any material adverse change in the Company's business and the receipt of certain certificates, opinions and letters from the Company and its counsel and independent auditors. The nature of the Underwriters' obligation is such that they are committed to purchase all shares of Common Stock offered hereby if any of such shares are purchased.

The Underwriters propose to offer the shares of Common Stock directly to the public at the initial public offering price set forth on the cover page of this Prospectus and to certain dealers at such price less a concession not in excess of $ per share. The Underwriters may allow, and such dealers may reallow, a concession not in excess of $ per share to certain other dealers. After the initial public offering of the shares, the offering price and other selling terms may be changed by the Representatives. The Representatives have informed the Company that the Underwriters do not intend to confirm sales to accounts over which they exercise discretionary authority.

The Company has granted to the Underwriters an option, exercisable no later than 30 days after the date of this Prospectus, to purchase up to 450,000 additional shares of Common Stock at the initial public offering price, less the underwriting discount, set forth on the cover page of this Prospectus. To the extent that the Underwriters exercise this option, each of the Underwriters will have a firm commitment to purchase approximately the same percentage thereof that the number of shares of Common Stock to be purchased by it shown in the table above bears to the total number of shares of Common Stock offered hereby. The Company will be obligated, pursuant to the option, to sell shares to the Underwriters to the extent the option is exercised. The Underwriters may exercise such option only to cover over-allotments made in connection with the sale of Common Stock offered hereby.

The Offering of the shares is made for delivery when, as and if accepted by the Underwriters and subject to prior sale and to withdrawal, cancellation or modification of the Offering without notice. The Underwriters reserve the right to reject an order for the purchase of shares in whole or in part.

The Company has agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act, and to contribute to payments the Underwriters may be required to make in respect thereof.

The executive officers and directors of the Company and certain stockholders have executed lock-up agreements in which they have agreed that they will not, without the prior written consent of Hambrecht & Quist LLC, directly or indirectly, offer, sell, pledge, contract to sell (including any short sale), grant any option to purchase or otherwise dispose of any shares of Common Stock (including, without limitation, shares of Common Stock which may be deemed to be beneficially owned by the parties to the lock-up agreements in accordance with the rules and regulations of the Commission and shares of Common Stock which may be issued upon exercise of a stock option or warrant or conversion of any convertible securities) or enter into any short sale (whether or not against the box) or any purchase, sale or grant of any right (including without limitation, any put or call option) with respect to any security (other than a broad-based market basket or index) that includes, relates to or derives any significant part of its value from the Common Stock (each of the foregoing referred to as a "Disposition") for a period continuing until 180 days after the effective date of the registration statement relating to the Offering (the "Lock-Up Period"). The lock-up agreements are intended to preclude the Company's officers, directors and certain of its stockholders from engaging in any transaction which is designed to or reasonably expected to lead to or result in a Disposition during the Lock-Up Period even if the securities would be disposed of by someone other than the parties to the lock-up agreements. Sales of such shares in the future could adversely affect the market price of the Common Stock. Hambrecht & Quist LLC may, in its sole discretion, release any of the shares subject to the lock-up agreements at any time without notice.

Prior to the Offering, there has been no public market for the Common Stock. The initial public offering price for the Common Stock will be determined by negotiation between the Company and the Representatives. Among the factors considered in determining the initial public offering price will be prevailing market conditions, revenues and earnings of the Company, market valuations of other companies engaged in activities similar to those of the Company, estimates of the business potential and prospects of the Company, the present state of the Company's business operations, the Company's management and other factors deemed relevant. The estimated initial public offering price range set forth on the cover of this preliminary prospectus is subject to change as a result of market conditions and other factors.

Certain persons participating in this Offering may overallot or effect transactions which stabilize, maintain or otherwise affect the market price of the Common Stock at levels above those which might otherwise prevail in the open market, including by entering stabilizing bids, effecting syndicate covering transactions or imposing penalty bids. A stabilizing bid means the placing of any bid or effecting of any purchase, for the purpose of pegging, fixing or maintaining the price of the Common Stock. A syndicate covering transaction means the placing of any bid on behalf of the underwriting syndicate or the effecting of any purchase to reduce a short position created in connection with the Offering. A penalty bid means an arrangement that permits the Underwriters to reclaim a selling concession from a syndicate member in connection with the Offering when shares of Common Stock sold by the syndicate member are purchased in syndicate covering transactions. Such transactions may be effected on the Nasdaq Stock Market, in the over-the-counter market, or otherwise. Such stabilizing, if commenced, may be discontinued at any time.

LEGAL MATTERS

Certain legal matters with respect to the validity of the issuance of the shares of Common Stock offered hereby will be passed upon for the Company by Alston & Bird LLP, Atlanta, Georgia. Certain other matters in connection with this Offering will be passed upon for the Underwriters by Goodwin, Procter & Hoar LLP, Boston, Massachusetts.

EXPERTS

The consolidated financial statements and schedule of Accredo Health, Incorporated as of and for the years ended June 30, 1997 and 1998, and for the period May 24, 1996 through June 30, 1996; the statement of operations and schedule of the Predecessor for the period July 1, 1995 through May 31, 1996; the financial statements of Horizon Health Systems, Inc. as of and for the years ended December 31, 1995 and 1996; the financial statements and schedule of Texas Health Pharmaceutical Resources as of and for the year ended June 30, 1997; the financial statements and schedule of Children's Memorial Home Hemophilia Services as of and for the year ended June 30, 1997 included in this Prospectus

and in the Registration Statement have been audited by Ernst & Young LLP, independent auditors, as set forth in their reports thereon appearing elsewhere herein and in the Registration Statement, and are included in reliance upon such reports given upon the authority of such firm as experts in accounting and auditing.

INDEX OF FINANCIAL STATEMENTS

REPORT OF INDEPENDENT AUDITORS

Board of Directors
Accredo Health, Incorporated

We have audited the accompanying consolidated balance sheets of Accredo Health, Incorporated (formerly Nova Holdings, Inc.) (the "Company") as of June

30, 1997 and 1998, and the related consolidated statements of operations, stockholders' equity and mandatorily redeemable cumulative preferred stock, and cash flows for the period from inception (May 24, 1996) through June 30, 1996, and for the years ended June 30, 1997 and 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Accredo Health, Incorporated at June 30, 1997 and 1998, and the results of its operations and its cash flows for the period from inception (May 24, 1996) through June 30, 1996, and for the years ended June 30, 1997 and 1998, in conformity with generally accepted accounting principles.

As discussed more fully in Notes 1, 2 and 3, the Company changed its accounting for intangible assets and its accounting for stock based compensation and, accordingly, has restated the consolidated financial statements referred to above to reflect these changes.

/s/ Ernst & Young LLP

Memphis, Tennessee

August 12, 1998, except for Notes 1, 2 and 3

as to which the date is March 21, 1999.

ACCREDO HEALTH, INCORPORATED

CONSOLIDATED BALANCE SHEETS

<TABLE>
<CAPTION>

<S>	JUNE 30, 1997	JUNE 30, 1998
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,675,819	$ 5,087,135
Receivables:		
Patient accounts	33,922,326	40,062,375
Allowance for doubtful accounts	(3,802,326)	(3,429,863)
	30,120,000	36,632,512
Due from affiliates	414,272	321,487
Other	2,077,950	2,921,672
	32,612,222	39,875,671
Recoverable income taxes	--	150,893
Inventories	16,016,166	12,131,032
Prepaids and other current assets	452,093	309,587
Deferred income taxes	1,488,227	323,986
Total current assets	54,244,527	57,878,304
Property and equipment, net	1,565,682	2,127,749
Other assets:		
Joint venture investments	652,374	627,728
Goodwill, net	50,941,866	49,647,250
Other intangible assets, net	5,904,513	3,767,756
Total assets	$113,308,962	$114,048,787
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		

Accounts payable	$33,420,517	$31,304,771
Accrued expenses	2,127,784	3,196,977
Income taxes payable	1,802,161	--
Total current liabilities	37,350,462	34,501,748
Long-term notes payable	27,497,725	27,497,725
Senior subordinated notes payable	7,696,984	8,920,180
Deferred income taxes	224,650	535,907
Mandatorily redeemable cumulative preferred stock, at redemption amount, 300,000 shares authorized, and 255,361 shares issued and outstanding in 1997 and 1998	27,749,221	29,792,109
Stockholders' equity:		
Common Stock, $.01 par value; 7,000,000 shares authorized, 5,507,253 in 1997 and 5,590,587 in 1998 issued and outstanding	55,073	55,906
Common stock subscribed--83,334 shares in 1997 and 34,000 shares in 1998	500,004	204,000
Additional paid-in capital	15,453,564	14,038,973
Retained deficit	(2,718,717)	(1,293,761)
	13,289,924	13,005,118
Subscription receivable	(500,004)	(204,000)
Total stockholders' equity	12,789,920	12,801,118
Total liabilities and stockholders' equity	$113,308,962	$114,048,787

</TABLE>

See accompanying notes.

ACCREDO HEALTH, INCORPORATED

CONSOLIDATED STATEMENTS OF OPERATIONS

<TABLE>
<CAPTION>

	PERIOD FROM INCEPTION (MAY 24, 1996) THROUGH JUNE 30, 1996	YEARS ENDED JUNE 30, 1997	1998
<S>	<C>	<C>	<C>
Revenues:			
Net patient service revenue	$6,647,165	$106,143,403	$170,001,733
Other revenue	597,283	8,048,870	9,806,296
Equity in net income of joint ventures	49,255	1,016,518	1,150,122
Total revenues	7,293,703	115,208,791	180,958,151
Operating expenses:			
Cost of services	6,450,279	101,080,589	154,045,458
General and administrative	626,688	5,938,874	12,488,698
Bad debts	251,538	2,976,718	3,165,292
Depreciation	17,300	230,887	429,702
Amortization	439,051	4,646,203	3,431,373
Total operating expenses	7,784,856	114,873,271	173,560,523
Operating income (loss)	(491,153)	335,520	7,397,628
Other expense (income):			
Interest expense	106,014	1,083,431	3,721,528
Interest income	--	(99,890)	(169,398)
	106,014	983,541	3,552,130
Income (loss) before income taxes	(597,167)	(648,021)	3,845,498
Income tax expense (benefit)	(28,420)	1,501,949	2,420,542
Net income (loss)	(568,747)	(2,149,970)	1,424,956
Mandatorily redeemable cumulative preferred stock dividends	(170,233)	(2,042,888)	(2,042,888)
Net loss attributable to common stockholders	$(738,980)	$(4,192,858)	$ (617,932)

Net loss per share attributable to common

stockholders:			
Basic	$ (0.14)	$ (0.82)	$ (0.11)
Diluted	$ (0.14)	$ (0.82)	$ (0.11)

</TABLE>

See accompanying notes.

ACCREDO HEALTH, INCORPORATED

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND MANDATORILY REDEEMABLE CUMULATIVE PREFERRED STOCK

<TABLE>
<CAPTION>

	COMMON STOCK SHARES	COMMON STOCK	COMMON STOCK SUBSCRIBED	SUBSCRIPTION RECEIVABLE	ADDITIONAL PAID-IN CAPITAL	RETAINED DEFICIT	TOTAL STOCKHOLDERS' EQUITY
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Initial capitalization	5,000,000	$ 50,000	$ --	$ --	$ 14,950,000	$ --	$ 15,000,000
Issuance of common stock and mandatorily redeemable preferred stock for acquired Company	107,253	1,073	--	--	320,685	--	321,758
Accrued dividends on mandatorily redeemable cumulative preferred stock	--	--	--	--	(170,233)	--	(170,233)
Net loss	--	--	--	--	--	(568,747)	(568,747)
Balance at June 30, 1996	5,107,253	51,073	--	--	15,100,452	(568,747)	14,582,778
Issuance of common stock	400,000	4,000	--	--	2,396,000	--	2,400,000
Common stock subscribed (83,334 shares)	--	--	500,004	--	--	--	500,004
Subscription receivable	--	--	--	(500,004)	--	--	(500,004)
Accrued dividends on mandatorily redeemable cumulative preferred stock	--	--	--	--	(2,042,888)	--	(2,042,888)
Net loss	--	--	--	--	--	(2,149,970)	(2,149,970)
Balance at June 30, 1997	5,507,253	55,073	500,004	(500,004)	15,453,564	(2,718,717)	12,789,920
Issuance of common stock	83,334	833	(500,004)	500,004	499,171	--	500,004
Common stock subscribed (34,000 shares)	--	--	204,000	--	--	--	204,000
Subscription receivable	--	--	--	(204,000)	--	--	(204,000)
Accrued dividends on mandatorily redeemable cumulative preferred stock	--	--	--	--	(2,042,888)	--	(2,042,888)
Compensation resulting from stock transactions, net of income tax benefit	--	--	--	--	129,126	--	129,126
Net income	--	--	--	--	--	1,424,956	1,424,956
Balance at June 30, 1998	5,590,587	$ 55,906	$ 204,000	$(204,000)	$ 14,038,973	$ (1,293,761)	$ 12,801,118

<CAPTION>

	MANDATORILY REDEEMABLE CUMULATIVE PREFERRED STOCK
<S>	<C>
Initial capitalization	$ 25,000,000
Issuance of common stock and mandatorily redeemable preferred stock for acquired Company	536,100
Accrued dividends on mandatorily redeemable cumulative preferred stock	170,233
Net loss	--
Balance at June 30, 1996	25,706,333
Issuance of common stock	--

Common stock subscribed (83,334 shares)	--
Subscription receivable	--
Accrued dividends on mandatorily redeemable cumulative preferred stock	2,042,888
Net loss	--
Balance at June 30, 1997	27,749,221
Issuance of common stock...	
Common stock subscribed (34,000 shares)	--
Subscription receivable	--
Accrued dividends on mandatorily redeemable cumulative preferred stock	2,042,888
Compensation resulting from stock transactions, net of income tax benefit	--
Net income	--
Balance at June 30, 1998	$ 29,792,109

</TABLE>

See accompanying notes.

ACCREDO HEALTH, INCORPORATED

CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

	PERIOD FROM INCEPTION (MAY 24, 1996) THROUGH JUNE 30, 1996	YEARS ENDED JUNE 30, 1997	1998
<S>	<C>	<C>	<C>
OPERATING ACTIVITIES			
Net income (loss)	$ (568,747)	$(2,149,970)	$1,424,956
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	456,351	4,877,090	3,861,075
Original issue discount amortization	--	11,975	177,370
Interest added to long-term obligations	--	85,009	1,045,826
Provision for losses on accounts receivable	251,538	2,976,718	3,165,292
Deferred income tax expense (benefit)	(150,260)	111,384	1,466,643
Compensation resulting from stock transactions	--	--	137,981
Changes in operating assets and liabilities, net of effect from purchase of companies:			
Patient receivables and other	(900,707)	(11,059,965)	(10,521,526)
Due from affiliates	(39,392)	478,512	92,785
Inventories	(5,349,168)	(5,260,633)	3,885,134
Prepaids and other current assets	(26,480)	(216,048)	142,506
Recoverable income taxes	23,264	--	(150,893)
Accounts payable and accrued expenses	7,230,569	9,378,288	(1,046,553)
Income taxes payable	305,289	261,340	(1,802,161)
Net cash provided by (used in) operating activities	1,232,257	(506,300)	1,878,435
INVESTING ACTIVITIES			
Purchases of property and equipment	(23,326)	(349,049)	(991,769)
Purchase of Horizon Health Systems, Inc. in 1997 and Southern Health Systems, Inc. in 1996, net of cash acquired	(37,733,715)	(29,721,000)	--
Change in joint venture investments, net	100,745	378,482	24,646
Net cash used in investing activities	(37,656,296)	(29,691,567)	(967,123)
FINANCING ACTIVITIES			
Proceeds from long-term obligations	--	27,897,725	--
Issuance of preferred stock	25,000,000	--	--
Issuance of common stock	15,000,000	2,400,000	500,004

Net cash provided by financing activities.....	40,000,000	30,297,725	500,004
Increase in cash and cash equivalents.....	3,575,961	99,858	1,411,316
Cash and cash equivalents at beginning of period.....	--	3,575,961	3,675,819
Cash and cash equivalents at end of period.....	$ 3,575,961	$3,675,819	$5,087,135
SUPPLEMENTARY CASH FLOW DISCLOSURES:			
Income taxes paid.....	$ 204,687	$ 858,840	$1,531,692
Cash paid for interest.....	$ 105,854	$ 567,999	$2,675,701

</TABLE>

See accompanying notes.

ACCREDO HEALTH, INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND RESTATEMENT OF FINANCIAL STATEMENTS

RESTATEMENT OF FINANCIAL STATEMENTS

The Company has restated its consolidated financial statements for the periods ended June 30, 1996, 1997 and 1998 in order to reflect the reallocation of the purchase price of certain acquired businesses to include identified intangible assets, and to record stock-based compensation not previously recognized. As more fully discussed in Notes 2 and 3, the Company identified intangible assets which were not previously identified. The impact of the restatement on the Company's consolidated financial results as originally reported is summarized below:

<TABLE>
<CAPTION>

	PERIOD FROM INCEPTION (MAY 24, 1996) THROUGH JUNE 30, 1996		YEARS ENDED JUNE 30, 1997		1998	
	AS REPORTED	AS RESTATED	AS REPORTED	AS RESTATED	AS REPORTED	AS RESTATED
<S>	<C>	<C>	<C>	<C>	<C>	<C>
General and administrative expense.....	$ 626,688	$ 626,688	$ 5,938,874	$ 5,938,874	$ 12,350,717	$ 12,488,698
Amortization expense.....	108,604	439,051	1,368,299	4,646,203	2,098,584	3,431,373
Net income (loss).....	(238,300)	(568,747)	1,122,453	(2,149,970)	2,821,098	1,424,956
Retained earnings (deficit)....	(238,300)	(568,747)	--	(2,718,717)	778,210	(1,293,761)
Stockholders' Equity.....	14,913,225	14,582,778	16,392,790	12,789,920	17,671,004	12,801,118
Net income (loss) per share attributable to common stockholders':						
Basic.....	$ (0.08)	$ (0.14)	$ (0.18)	$ (0.82)	$ .14	$ (0.11)
Diluted.....	(0.08)	(0.14)	(0.18)	(0.82)	.13	(0.11)

</TABLE>

ORGANIZATION AND PRINCIPLES OF CONSOLIDATION

Accredo Health, Incorporated (formerly Nova Holdings, Inc.) (the Company) was incorporated on May 24, 1996. As more fully described in Note 3, on May 31, 1996, the Company acquired Southern Health Systems, Inc. (a holding company) and its wholly-owned subsidiary, Nova Factor, Inc. Since the Company was newly formed at May 24, 1996, and because Nova Factor, Inc. had been in existence for several years, the Company is considered the successor to Nova Factor Inc.'s operations.

The consolidated financial statements include the accounts and transactions of the Company and its subsidiaries for the period from inception (May 24, 1996) through June 30, 1998, and its subsidiary Horizon Health Systems, Inc. (HHS) for the period from its acquisition, June 1, 1997, through June 30, 1998.

Significant intercompany accounts have been eliminated in consolidation.

DESCRIPTION OF BUSINESS

The Company provides specialized contract pharmacy and related services pursuant to agreements with biotechnology drug manufacturers relating to the treatment of patients with certain costly chronic diseases. Because of the unique needs of patients suffering from chronic diseases, biotechnology drug manufacturers have recognized the benefits of customized programs to facilitate alternate site drug administration, ensure compliance with treatment regimens, provide reimbursement assistance and capture valuable clinical and patient demographic information. The Company addresses the needs of the manufacturers by providing specialized services that facilitate product launch and patient acceptance including the collection of timely drug utilization

1. ORGANIZATION AND RESTATEMENT OF FINANCIAL STATEMENTS (CONTINUED)

and patient compliance information, patient education and monitoring through the use of written materials and telephonic consultation, reimbursement expertise and overnight drug delivery.

The Company has designed its specialty services to focus primarily on biotechnology drugs that: (i) are used on a recurring basis to treat chronic, and potentially life threatening diseases; (ii) are expensive; (iii) are administered through injection; and (iv) require temperature control or other specialized handling as part of their distribution process. Currently, the Company provides specialized contract pharmacy and related services that address the needs of patients with the following diseases: Gaucher Disease, a hereditary liver enzyme deficiency; hemophilia, a hereditary bleeding disorder; Multiple Sclerosis, a debilitating disease of the central nervous system; and growth hormone related disorders. These diseases generally require life-long therapy, except for the treatment of growth hormone-related disorders which typically require treatment for six to ten years.

2. SIGNIFICANT ACCOUNTING POLICIES

CASH EQUIVALENTS

The Company considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

PATIENT ACCOUNTS RECEIVABLE

The Company's primary concentration of credit risk is patient accounts receivable, which consists of amounts owed by various governmental agencies, insurance companies and private patients. The Company manages the receivables by regularly reviewing its accounts and contracts and by providing appropriate allowances for uncollectible amounts. Significant concentrations of gross patient accounts receivable consist of the following at June 30:

<TABLE>
<CAPTION>

	1997	1998
<S>	<C>	<C>
Medicare	5%	3%
Medicaid	17%	23%

</TABLE>

Concentration of credit risk relating to accounts receivable is limited to some extent by the diversity and number of patients and payors and the geographic dispersion of the Company's operations The Company grants credit without collateral to its patients.

INVENTORIES

Inventories are stated at the lower of cost (first-in, first-out method) or market.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value of receivables, accounts payable and notes payable approximates fair value of these financial instruments at June 30, 1997 and 1998.

PROPERTY AND EQUIPMENT

Property and equipment is stated at cost. Provisions for depreciation are

computed primarily by the straight-line method based on the estimated useful lives of the related assets of 2 to 7 years.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill represents the excess of the cost of businesses acquired over fair value of net tangible and identifiable intangible assets at the date of acquisition. As discussed in Note 1, the 1996, 1997 and 1998 financial statements have been restated to reflect the reallocation of the purchase price of acquired businesses to include identified intangible assets. The Company recorded $22,388,459 in goodwill, $1,000,000 in non-compete agreements, and $1,007,636 in acquired patient population on June 1, 1997, and $29,396,195 in goodwill, $1,117,783 in non-compete agreements, $6,136,581 in value associated with agreements with drug manufacturers and medical centers, $247,466 in acquired patient population, and $361,416 in other intangible assets on May 31, 1996, in connection with business acquisitions. These assets are being amortized using the straight-line method over their estimated useful lives of 40 years for goodwill, 3 and 10 years for the non-compete agreements, 3 months to 3 years for the value associated with agreements with drug manufacturers and medical centers, 4 to 8 years for acquired patient population, and 10 years for the other intangible assets. Goodwill is net of accumulated amortization of $842,788 and $2,137,404 at June 30, 1997 and 1998, respectively. Other intangible assets are net of accumulated amortization of $4,242,466 and $6,379,223 at June 30, 1997 and 1998, respectively.

VALUATION OF LONG-LIVED ASSETS

Management periodically evaluates carrying values of long-lived assets, including property and equipment, strategic investments, goodwill and other intangible assets, to determine whether events and circumstances indicate that these assets have been impaired. An asset is considered impaired when undiscounted cash flows to be realized from such asset are less than its carrying value. In that event, a loss is determined based on the amount the carrying value exceeds the fair market value of such asset.

MANDATORILY REDEEMABLE CUMULATIVE PREFERRED STOCK

The Company is authorized to issue up to 300,000 shares of nonvoting mandatorily redeemable cumulative preferred stock (Series A). In connection with its formation, the Company issued, at the $100 redemption amount, 250,000 shares of the preferred stock on May 31, 1996, and 5,361 shares on the same date in connection with the acquisition (see note 3), for a total of $25,536,100. The nonvoting mandatorily redeemable cumulative preferred stock is entitled to an $8 per share annual dividend. Accumulated unpaid dividends of $2,213,121 and $4,256,009 at June 30, 1997 and 1998, respectively, are included in the mandatorily redeemable cumulative preferred stock in the accompanying consolidated balance sheets. Accumulated unpaid dividends are $16.67 per share at June 30, 1998.

The Company may, at its option, redeem at any time a portion or all of the preferred stock at the redemption price of $100 per share, plus any accrued but unpaid dividends, with the consent of the bank holding the senior debt. On May 31, 2004, the Company must purchase and redeem, at the redemption price of $100 plus any accrued and unpaid dividends, all the then outstanding shares of the redeemable preferred stock. If at any time the Company consummates a public offering of its common stock, the Company shall apply any net cash proceeds of such offering to redeem, at the redemption price, shares of the preferred stock.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
STOCK-BASED COMPENSATION

The Company recognizes stock-based compensation using the intrinsic value method as permitted by Financial Accounting Standards Board Statement No. 123, ACCOUNTING FOR STOCK-BASED COMPENSATION (Statement 123). Accordingly, no compensation expense is recorded for stock-based awards issued at market value at the date such awards are granted. However, the Company incurred $435,840 in compensation cost for 1998 stock transactions at less than fair market value. The Company makes pro forma disclosures of net income as if the market-value method was followed.

REVENUE RECOGNITION

Net patient service revenues are reported at the net amounts billed to patients, third-party payors and others in the period the services are rendered. The Company has agreements with certain third-party payors that provide for payments to the Company at amounts discounted from its established rates.

Approximately 18%, 17% and 20% of gross patient service revenues for the periods ended June 30, 1996, 1997 and 1998, respectively, is from participation in the Medicare and state-sponsored Medicaid programs.

Other revenues primarily consist of management fees from biotech manufacturers and various management agreements with hospitals and joint ventures. The Company recognizes revenues in the period the services are rendered.

INTEREST RATE SWAP AGREEMENTS

The Company enters into interest rate swap agreements as a means of managing its interest rate exposure. The differential to be paid or received is recognized over the life of the agreement as an adjustment to interest expense.

NET EARNINGS PER SHARE

In 1997, the Financial Accounting Standards Board (FASB) issued Statement No. 128. Earnings per Share. Statement 128 replaced the calculation of primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings per share excludes any dilutive effects of options, warrants and convertible securities. Diluted earnings per share is very similar to the previously

reported fully diluted earnings per share. All earnings per share amounts for all periods have been presented to conform to Statement 128 requirements.

USE OF ESTIMATES

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Estimates are used primarily in recording the allowance for doubtful accounts.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 1997, the Financial Accounting Standards Board issued Statement No. 131, DISCLOSURES ABOUT SEGMENTS OF AN ENTERPRISE AND RELATED INFORMATION. The Statement changes the way public companies report segment information in financial statements and also requires those companies to report selected segment information in interim financial reports to shareholders. The Statement is effective for the Company beginning

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
with its June 30, 1999, financial statements. The Statement affects only disclosures presented in the financial statements and will have no effect on consolidated financial position or results of operations.

In June 1998, the Financial Accounting Standards Board issued Statement No. 133, ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES, which is required to be adopted in years beginning after June 15, 1999. Management of the Company does not anticipate that the adoption of the new Statement will have a significant effect on results of operations or the financial position of the Company.

3. BUSINESS ACQUISITIONS

On May 31, 1996, the Company acquired all of the outstanding shares of Southern Health Systems, Inc. (SHS) common stock. SHS was a holding company whose wholly-owned operating subsidiary was Nova Factor, Inc. In connection with the acquisition of SHS common stock, the Company paid cash of $39,169,291 and issued 107,253 shares of the Company's common stock and 5,361 shares of the Company's mandatorily redeemable preferred stock with a value of $857,858. Total assets acquired and liabilities assumed were $27,537,936 and $24,210,786, respectively. This transaction was recorded by the Company using the purchase method of accounting. The excess of the total purchase price of $40,586,591,

including acquisition costs of $559,442, over the fair market value of the net assets acquired of $3,327,150 was allocated to goodwill and other identifiable intangible assets. The Company recorded $29,396,195 in goodwill, $1,117,783 in non-compete agreements, $6,136,581 in value associated with agreements with drug manufacturers and medical centers, $247,466 in acquired patient population, and $361,416 in other intangible assets which are included in the accompanying consolidated balance sheets.

On June 1, 1997, the Company acquired substantially all the assets of HHS, a Company engaged in the sale and distribution of blood clotting factors and ancillary supplies to hemophilia patients, through an acquisition accounted for using the purchase method of accounting. The consideration paid by the Company related to this acquisition was $29,996,127. Total assets acquired and liabilities assumed were $9,018,540 and $3,152,031, respectively. This transaction was recorded by the Company using the purchase method of accounting. The excess of the purchase price of $24,396,095, including acquisition costs of $266,477, over the fair market value of the net assets acquired, was allocated to goodwill and other identifiable intangible assets. The Company recorded $22,388,459 in goodwill, $1,000,000 in non-compete agreements, and $1,007,636 in acquired patient population. The operating results of HHS are included in the Company's consolidated statement of operations beginning June 1, 1997.

Pro forma amounts for the periods ended June 30, 1996 and 1997, as if the acquisition had occurred on May 24, 1996 (inception), are as follows:

<TABLE>
<CAPTION>

	1996	1997
<S>	<C>	<C>
Pro forma total revenues	$ 8,971,000	$ 142,777,000
Pro forma net loss attributable to common stockholders	$ (850,000)	$ (4,571,000)
Pro forma loss per share attributable to common stockholders	$ (0.17)	$ (0.89)

</TABLE>

4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30:

<TABLE>
<CAPTION>

	1997	1998
<S>	<C>	<C>
Equipment	$ 817,142	$ 1,304,935
Furniture and fixtures	996,727	1,487,585
	1,813,869	2,792,520
Accumulated depreciation	(248,187)	(664,771)
	$ 1,565,682	$ 2,127,749

</TABLE>

5. NOTES PAYABLE

At June 30, 1998, the Company has a revolving line of credit agreement for up to $40 million with banks, which expires October 31, 1999. The Company's borrowing base, as defined in the agreement, was approximately $33,155,000 and $39,843,000 at June 30, 1997 and 1998, respectively. Amounts outstanding under the line of credit bear interest at varying rates based upon a LIBOR or prime rate of interest at the periodic election of the Company plus a variable margin rate based on the Company's debt to cash flow ratio as defined by the banks (the combination of a 2% margin and LIBOR base rate resulted in effective rates of 7.69% at June 30, 1997 and 7.625% at June 30, 1998). The Company entered into an interest rate swap agreement with a bank in October 1997 in order to fix a portion of its interest rate exposure on this line of credit. The terms of the agreement require the Company to pay a fixed interest rate of 6.15% on a $15 million notional amount and receive the 30 day LIBOR rate in exchange. The interest rate swap agreement terminates October 29, 1999. The line of credit is secured by substantially all assets of the Company. The bank's security interest in a portion of the Company's inventory is subordinate to the liens on that inventory under the terms of a security agreement between the Company and one of

its vendors. The same vendor has a security interest in certain accounts receivable of the Company which is subordinate to the rights of the banks. At June 30, 1998, the balance outstanding under this line of credit was $27,497,725.

As defined in the credit agreements, the line of credit contains financial covenants which require the Company to maintain certain levels of net worth, tangible net worth, working capital, debt to net worth and liquidity ratios. The credit agreement also restricts certain changes in management and ownership of the Company.

During June 1997, the Company issued $10 million in senior subordinated notes (the Notes) to certain stockholders of the Company in connection with the purchase of HHS. The Notes, which are due June 1, 2004, have a stated interest rate of 10% and an effective rate of 16%. The Notes are unsecured. Concurrently with the issuance of the Notes, the Company issued 400,000 shares of its common stock to the Noteholders. The excess of the fair market value of the 400,000 shares of common stock issued over the purchase price of $4,000 was recorded as an original issue discount. This original issue discount, which accretes over the life of the related obligation using the effective interest method, is reflected as a reduction of the Notes in the accompanying consolidated balance sheets.

At the option of the Company, the amount of interest due and payable September 1, 1998; December 1, 1998; March 1, 1999 and June 1, 1999, may be added to the unpaid principal balance of the Notes. During 1997 and 1998, the Company added $85,009 and $1,045,826, respectively, of accrued interest due during 1997 and 1998 to the unpaid principal balance of the Notes.

5. NOTES PAYABLE (CONTINUED)

If at any time while the Notes are outstanding, the Company shall consummate a public offering, as defined in the note purchase agreement, or merge or consolidate, as defined in the note purchase agreement, the Company shall use the net proceeds of such offering to repay the principal amount of the Notes, plus accrued interest (see Note 12). On any interest payment date on or after June 1, 2002, the Company shall pay an amount of accrued original issue discount on the Notes as shall be necessary to ensure that such Notes shall not be considered applicable high yield discount obligations as defined in the note purchase agreement.

6. INCOME TAXES

The liability method is used in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company is indemnified for income tax liabilities arising prior to May 31, 1996, by its former parent.

Income tax expense (benefit) consist of the following for the periods ended June 30:

<TABLE>
<CAPTION>

	1996	1997	1998
<S>	<C>	<C>	<C>
Current:			
Federal	$ 121,840	$ 1,159,425	$ 850,062
State	--	231,140	103,837
	121,840	1,390,565	953,899
Deferred:			
Federal	(142,852)	95,426	1,239,311
State	(7,408)	15,958	227,332
	(150,260)	111,384	1,466,643
	$ (28,420)	$ 1,501,949	$ 2,420,542

</TABLE>

The provision (benefit) for income taxes differed from the amount computed by applying the statutory federal income tax rate of 34% for the periods ended June 30 due to the following:

<TABLE>
<CAPTION>

	1996	1997	1998
<S>	<C>	<C>	<C>
Income tax expense (benefit) at statutory rate	$ (203,037)	$ (220,380)	$ 1,307,434
State income tax expense (benefit), net of federal income tax expense (benefit)	(4,889)	164,418	218,572
Goodwill amortization	149,277	1,552,595	836,298
Other	30,229	5,316	58,238
Income tax expense (benefit)	$ (28,420)	$ 1,501,949	$ 2,420,542

</TABLE>

6. INCOME TAXES (CONTINUED)

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities at June 30 are as follows:

<TABLE>
<CAPTION>

	1997	1998
<S>	<C>	<C>
Deferred tax assets:		
Accounts receivable reserves	$ 1,350,846	$ 175,637
Accrued expenses	84,505	96,904
Joint venture investments	20,322	17,129
Other	32,554	34,316
	1,488,227	323,986
Deferred tax liabilities:		
Property and equipment	(99,863)	(150,458)
Intangible assets	(37,910)	(301,352)
Joint venture investments	(86,877)	(84,097)
	(224,650)	(535,907)
Net deferred tax assets (liabilities)	$ 1,263,577	$ (211,921)

</TABLE>

7. OPERATING LEASES

The Company leases office space and equipment under various operating leases. Rent expense for all operating leases was approximately $24,000, $429,000 and $758,000 for the periods ended June 30, 1996, 1997 and 1998, respectively.

Future minimum payments, by year and in the aggregate, under noncancelable operating leases with initial terms of one year or more consist of the following at June 30, 1998 (including executed lease extensions through August 12, 1998):

<TABLE>

<S>	<C>
1999	$ 780,000
2000	522,000
2001	360,000
2002	388,000
2003	361,000
	$2,411,000

</TABLE>

8. INVESTMENT IN JOINT VENTURES

Texas Health Pharmaceutical Resources, Teddy Bear Home Care/Drug Therapies and Children's Memorial Home Hemophilia Services are partnerships in which the Company has a 50% ownership interest. Campus Home Health Care-Home Hemophilia is

a limited liability company in which the Company has a 25% ownership interest. These joint ventures are accounted for by the Company under the equity method of accounting. Amounts due from these joint ventures to the Company are classified as due from affiliates in the accompanying consolidated balance sheets. The portion of the Company's retained earnings at June 30, 1998, attributable to undistributed earnings of these joint ventures is $628,000.

8. INVESTMENT IN JOINT VENTURES (CONTINUED)

The Company provided management services to these joint ventures of $21,000, $362,000 and $413,000 for the periods ended June 30, 1996, 1997 and 1998, respectively, which are recorded as other revenues in the accompanying consolidated statements of operations.

Summary financial information for affiliated joint ventures (20 percent to 50 percent owned) accounted for by the equity method is as follows as of and for the periods ended June 30:

<TABLE>
<CAPTION>

	1996	1997	1998
<S>	<C>	<C>	<C>
Current assets	$ 3,365,000	$ 2,783,000	$ 2,322,000
Property and equipment and other assets	96,000	84,000	78,000
Current liabilities	1,403,000	1,546,000	1,133,000
Total revenues	729,000	12,736,000	10,215,000
Net income	99,000	2,050,000	2,315,000

</TABLE>

9. DEFINED CONTRIBUTION PLAN

The Company has a qualified defined contribution plan under Section 401(k) of the Internal Revenue Code. Substantially all employees with a minimum of three months of service qualify for participation in the plan. The Company matches employee contributions, as defined in the plan. The Company made annual matching contributions of approximately $2,000, $41,000 and $43,000 for the periods ended June 30, 1996, 1997 and 1998, respectively.

10. STOCK OPTION PLAN

The Company's Amended and Restated Stock Option and Restricted Stock Purchase Plan has authorized the grant of options to selected employees, officers, and directors for up to 965,000 shares of the Company's common stock. All options granted have 10 year terms and vest and become fully exercisable over a period of 1 to 6 years of continued employment. Certain options granted with up to 6 year vesting terms also have provisions for accelerated vesting over the first 4 years if certain Company income targets are achieved during that period. Otherwise, these options become fully exercisable at the end of up to 6 years of continued employment.

Pro forma information regarding net income is required by Statement 123 and has been determined as if the Company had accounted for its employee stock options under the fair value method of Statement 123. Significant assumptions used by the Company in the Black-Scholes option pricing model computations are as follows for the periods ended June 30:

<TABLE>
<CAPTION>

	1996	1997	1998
<S>	<C>	<C>	<C>
Risk-free interest rates	6.25% to 6.40%	6.08% to 6.93%	5.48% to 6.22%
Dividend yield	0%	0%	0%
Volatility factor	.60	.60	.60
Weighted-average expected life	4.6 years	4.5 years	4.45 years

</TABLE>

The Black-Scholes option model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the

10. STOCK OPTION PLAN (CONTINUED)
subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information for the periods ended June 30 is as follows:

	1996	1997	1998
Net income (loss) "as reported"	$ (568,747)	$ (2,149,970)	$ 1,424,956
Pro forma net income (loss)	$ (583,834)	$ (2,357,628)	$ 1,119,194

These pro forma disclosures are not necessarily representative of the effects of stock options on reported pro forma net income for future years.

A summary of the Company's stock option activity and related information for the periods ended June 30 follows:

	1996		1997		1998	
	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE
Outstanding at beginning of period	--	$ --	542,857	$ 3	670,858	$ 3
Granted	542,857	3	130,001	3	186,428	6
Exercised	--	--	--	--	--	--
Forfeited	--	--	(2,000)	3	(857)	3
Outstanding at end of period	542,857	$ 3	670,858	$ 3	856,429	$ 4.84
Exercisable at end of period	--	$ --	116,000	$ 3	247,001	$ 3.17
Weighted-average fair value of options granted during the year	$ 1.64		$ 1.63		$ 2.61	

The range of exercise prices for the Company's stock options outstanding at June 30, 1998, is $3.00 to $6.00. The weighted-average remaining contractual life of those outstanding options is 8.3 years at June 30, 1998.

11. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted loss per share for the periods ended June 30:

	1996	1997	1998
Numerator for basic and diluted income (loss) per share attributable to common stockholders:			
Net income (loss)	$ (568,747)	$ (2,149,970)	$ 1,424,956
Less preferred stock dividends	(170,233)	(2,042,888)	(2,042,888)

Net loss attributable to common stockholders	$ (738,980)	$ (4,192,858)	$ (617,932)
Denominator:			
Denominator for basic loss per share attributable to common stockholders--weighted-average shares	5,107,253	5,140,586	5,566,281
Effect of dilutive stock options	--	277,138	474,492
Denominator for diluted income (loss) per share attributable to common stockholders--adjusted weighted-average shares	5,107,253	5,417,724	6,040,773
Net loss per share attributable to common stockholders--basic	$ (0.14)	$ (0.82)	$ (0.11)
Net loss per share attributable to common stockholders--diluted (1)	$ (0.14)	$ (0.82)	$ (0.11)

</TABLE>

(1) Historical diluted loss per share amounts for 1996, 1997 and 1998 have been calculated using the same denominator as used in the basic loss per share calculation as the inclusion of dilutive securities in the denominator would have an anti-dilutive effect.

ACCREDO HEALTH, INCORPORATED

CONDENSED CONSOLIDATED BALANCE SHEET

(UNAUDITED)

<TABLE>
<CAPTION>

	DECEMBER 31, 1998
<S>	<C>
ASSETS	
Current assets:	
Cash and cash equivalents	$ 1,636,058
Patient accounts receivable, less allowance for doubtful accounts of $4,460,770	53,092,303
Inventories	16,012,130
Prepaids and other current assets	1,037,413
Deferred income taxes	1,469,475
Total current assets	73,247,379
Property and equipment, net	2,346,423
Other assets:	
Joint venture investments	2,355,229
Goodwill and other intangible assets, net	51,699,319
Total assets	$ 129,648,350
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable	$ 43,433,520
Accrued expenses	4,344,067
Total current liabilities	47,777,587
Long-term notes payable	27,497,725
Senior subordinated notes payable	9,040,438
Deferred income taxes	611,124
Mandatorily redeemable cumulative preferred stock, at redemption amount, 300,000 shares authorized, 255,361 shares issued and outstanding	30,813,553
Stockholders' equity:	
Common Stock, $.01 par value; 7,000,000 shares authorized, 5,625,587 shares issued and outstanding	56,256
Additional paid-in capital	13,851,667
Retained Earnings	--
Total stockholders' equity	13,907,923
Total liabilities and stockholders' equity	$ 129,648,350

</TABLE>

See accompanying notes.

ACCREDO HEALTH, INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

<TABLE>
<CAPTION>

	SIX MONTHS ENDED DECEMBER 31,	
	1997	1998
<S>	<C>	<C>
Revenues:		
Net patient service revenue	$ 80,366,889	$ 113,747,690
Other revenue	4,679,634	5,647,678
Equity in net income of joint ventures	539,642	631,155
Total revenues	85,586,165	120,026,523
Operating expenses:		
Cost of services	73,086,872	101,909,318
General and administrative	5,728,899	8,391,329
Bad debts	1,582,203	2,283,627
Depreciation	195,830	270,374
Amortization	1,715,687	1,715,687
Total operating expenses	82,309,491	114,570,335
Operating income	3,276,674	5,456,188
Other expense (income):		
Interest expense	1,859,783	1,816,846
Interest income	(78,464)	(86,381)
	1,781,319	1,730,465
Income before income taxes	1,495,355	3,725,723
Income tax expense	1,066,367	1,862,354
Net income	428,988	1,863,369
Mandatorily redeemable cumulative preferred stock dividends	(1,021,444)	(1,021,444)
Net income (loss) attributable to common stockholders	$ (592,456)	$ 841,925
Net income (loss) per share attributable to common stockholders:		
Basic	$ (0.11)	$ 0.15
Diluted	$ (0.11)	$ 0.14
Weighted average number of shares and share equivalents outstanding:		
Basic	5,543,033	5,620,842
Diluted	5,852,030	6,222,964

</TABLE>

See accompanying notes.

ACCREDO HEALTH, INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND MANDATORILY REDEEMABLE CUMULATIVE PREFERRED STOCK

(UNAUDITED)

<TABLE>
<CAPTION>

	COMMON STOCK SHARES	COMMON STOCK	COMMON STOCK SUBSCRIBED	SUBSCRIPTION RECEIVABLE	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS (DEFICIT)	TOTAL STOCKHOLDERS' EQUITY	MANDATORILY REDEEMABLE CUMULATIVE PREFERRED STOCK

<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at June 30, 1998.....	5,590,587	$ 55,906	$ 204,000	($204,000)	$14,038,973	($1,293,761)	$12,801,118	2$9,792,109
Issuance of common stock.....	34,000	340	(204,000)	204,000	203,660	--	204,000	--
Exercise of stock options.....	1,000	10	--	--	2,990	--	3,000	--
Accrued dividends on mandatorily redeemable cumulative preferred stock...	--	--	--	--	(451,836)	(569,608)	(1,021,444)	1,021,444
Compensation resulting from stock transactions, net of income tax benefit.....	--	--	--	--	57,880	--	57,880	--
Net income.....	--	--	--	--	--	1,863,369	1,863,369	--
Balance at December 31, 1998...	5,625,587	$ 56,256	$ -0-	$ -0-	$13,851,667	$ --	$13,907,923	3$0,813,553

</TABLE>

See accompanying notes.

ACCREDO HEALTH, INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

<TABLE>
<CAPTION>

<S>	SIX MONTHS ENDED DECEMBER 31,	
	<C> 1997	<C> 1998
OPERATING ACTIVITIES		
Net income.....	$ 428,988	$ 1,863,369
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization.....	1,911,517	1,986,061
Original issue discount amortization.....	73,405	120,257
Interest added to long-term obligations.....	510,096	--
Provision for losses on accounts receivable.....	1,582,203	2,283,627
Deferred income tax benefit.....	(4,343)	(1,104,704)
Compensation resulting from stock transactions.....	--	92,312
Changes in operating assets and liabilities:		
Patient receivables and other.....	(7,962,893)	(14,883,446)
Due from affiliates.....	79,140	(616,813)
Inventories.....	(3,446,839)	(3,881,098)
Prepaids and other current assets.....	274,880	(727,823)
Recoverable income taxes.....	(35,570)	150,893
Accounts payable and accrued expenses.....	5,098,330	13,143,072
Income taxes payable.....	(1,802,161)	132,765
Net cash used in operating activities.....	(3,293,247)	(1,441,528)
INVESTING ACTIVITIES		
Purchases of property and equipment.....	(553,099)	(489,048)
Purchase of joint venture investments.....	--	(1,297,667)
Change in joint venture investments, net.....	15,358	(429,834)
Net cash used in investing activities.....	(537,741)	(2,216,549)
FINANCING ACTIVITIES		
Proceeds from long-term obligations.....	2,000,000	--
Issuance of common stock.....	500,004	207,000
Net cash provided by financing activities.....	2,500,004	207,000
Decrease in cash and cash equivalents.....	(1,330,984)	(3,451,077)
Cash and cash equivalents at beginning of period.....	3,675,819	5,087,135
Cash and cash equivalents at end of period.....	$ 2,344,835	$ 1,636,058
SUPPLEMENTARY CASH FLOW DISCLOSURES		
Income taxes paid.....	$ 2,775,182	$ 2,618,000
Cash paid for interest.....	$ 1,279,536	$ 2,148,469

</TABLE>

See accompanying notes.

ACCREDO HEALTH, INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

DECEMBER 31, 1998

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. During the six months ended December 31, 1998, the Company incurred $420,000 in compensation cost for stock transactions at less than fair market value. Operating results for the six months ended December 31, 1998, are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 1999. For further information, refer to the June 30, 1998 consolidated financial statements and footnotes thereto included elsewhere herein.

2. JOINT VENTURE INVESTMENTS

On November 10, 1998, the Company acquired a 50% general partnership interest in Childrens Hemophilia Services, a partnership established to engage in the sale and distribution of blood clotting factors and ancillary supplies to hemophilia patients, for an initial purchase price of $916,667. In addition to the purchase price paid on the acquisition date, the Company will pay up to an additional $833,333 in two installments if targeted earnings specified in the purchase agreement are achieved for the twelve month periods ending twenty-four months and thirty-six months from the acquisition date. This transaction was recorded by the Company as a joint venture investment and is being accounted for by the equity method.

On November 10, 1998, the Company acquired a 50% general partnership interest in Childrens Home Services, a partnership established to engage in the sale and distribution of human growth hormone and ancillary supplies to patients with growth hormone-related disorders, for a purchase price of $381,000. This transaction was recorded by the Company as a joint venture investment and is being accounted for by the equity method.

3. NOTES PAYABLE

During the six months ended December 31, 1998, the Company extended the term of its $40 million revolving line of credit agreement. The terms of the agreement were extended for one year from the original expiration date of October 31, 1999 to October 31, 2000. Amounts outstanding under the line of credit bear interest at varying rates based upon a LIBOR or prime rate of interest at the periodic election of the Company plus a variable margin rate based on the Company's debt to cash flow ratio as defined by the banks. Due to the Company's improved debt to cash flow ratio during the six months ended December 31, 1998, the variable margin rate charged by the banks in addition to LIBOR decreased from 2% to 1.5% effective November 1, 1998. The Company also recently entered into a new interest rate swap agreement with a bank on January 21, 1999. The new agreement cancels the old agreement. The terms of the new agreement require the Company to pay a lower fixed interest rate of 5.5% on an increased notional amount of $25 million and receive the 30 day LIBOR rate in exchange. The terms of the new interest rate swap agreement have also been extended from the original termination date of October 29, 1999 to October 31, 2001.

4. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings, (loss) per share for the six-month periods ended December 31:

<TABLE>
<CAPTION>

	1997	1998
<S>	<C>	<C>
Numerator for basic and diluted income per share attributable to common stockholders:		
Net income	$ 428,988	$ 1,863,369
Less preferred stock dividends	(1,021,444)	(1,021,444)
Net income (loss) attributable to common stockholders	$ (592,456)	$ 841,925
Denominator:		
Denominator for basic income per share attributable to common stockholders-weighted-average shares	5,543,033	5,620,842
Effect of dilutive stock options	308,997	602,122
Denominator for diluted income per share attributable to common stockholders-adjusted weighted-average shares	5,852,030	6,222,964
Net income (loss) per share attributable to common stockholders--basic	$ (0.11)	$ 0.15
Net income (loss) per share attributable to common stockholders--diluted(1)	$ (0.11)	$ 0.14

</TABLE>

(1) Historical diluted loss per share amounts for 1997 have been calculated using the same denominator as used in the basic loss per share calculation as the inclusion of dilutive securities in the denominator would have an anti-dilutive effect.

5. SUBSEQUENT EVENTS

PUBLIC OFFERING

The Company is currently in the process of an initial public offering of its common stock (the "Offering"). The net proceeds from the Offering are planned to be used primarily to repay the Notes and redeem Series A mandatorily redeemable cumulative preferred stock.

CHANGES IN COMMON STOCK

Immediately prior to the consummation of the Offering, the Company completed a recapitalization pursuant to which 1,100,000 shares of Common Stock held by the Company's principal stockholder were exchanged for 1,100,000 shares of Non-voting Common Stock of the Company. In addition, the Company increased the number of authorized shares of Common Stock to 30,000,000 shares.

REPORT OF INDEPENDENT AUDITORS

Board of Directors
Nova Factor, Inc.

We have audited the accompanying statements of operations, stockholder's equity and cash flows for Nova Factor, Inc. (the "Company") for the period July 1, 1995 through May 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material

misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the results of operations, changes in stockholder's equity and cash flows of Nova Factor, Inc. for the period July 1, 1995 through May 31, 1996, in conformity with generally accepted accounting principles.

/s/ Ernst & Young LLP

Memphis, Tennessee

August 30, 1996

NOVA FACTOR, INC.

STATEMENT OF OPERATIONS

ELEVEN-MONTH PERIOD ENDED MAY 31, 1996

Revenues:	
Net patient service revenue	$68,584,991
Other revenue	6,346,546
Equity in net loss of joint ventures	(138,970)
Total revenues	74,792,567
Operating expenses:	
Cost of services	65,867,240
General and administrative	2,753,353
Bad debts	1,860,253
Depreciation	103,352
Corporate overhead allocation	4,206,274
Total operating expenses	74,790,472
Operating income	2,095
Other (expense) income:	
Interest expense	(1,281,683)
Interest income	1,015,664
	(266,019)
Loss before income tax benefit	(263,924)
Income tax benefit:	72,090
Net loss	$ (191,834)

See accompanying notes.

NOVA FACTOR, INC.

STATEMENT OF STOCKHOLDER'S EQUITY

	COMMON STOCK	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	TOTAL
Balance at June 30, 1995	100	$ 1,000	$7,585,731	$3,728,265	$11,314,996
Dividend to SHS	--	--	(4,259,581)	(3,536,431)	(7,796,012)
Net loss for the period ended May 31, 1996	--	--	--	(191,834)	(191,834)
Balance at May 31, 1996	100	$ 1,000	$3,326,150	$ --	$3,327,150

See accompanying notes.

NOVA FACTOR, INC.

STATEMENT OF CASH FLOWS

ELEVEN-MONTH PERIOD ENDED MAY 31, 1996

OPERATING ACTIVITIES	
Net loss	$ (191,834)
Adjustments to reconcile net loss to net cash provided by operating activities:	
Depreciation	103,352
Provision for losses on patient receivables	1,860,253
Provision for deferred income taxes	78,778
Changes in operating assets and liabilities:	
Patient receivables and other	(720,568)
Recoverable income taxes	(23,264)
Due to affiliates	1,048,753
Inventories	5,027,002
Prepaids and other current assets	(59,462)
Accounts payable and accrued expenses	(5,089,028)
Income taxes payable	(161,972)
Net cash provided by operating activities	1,872,010
INVESTING ACTIVITIES	
Purchases of property and equipment	(880,057)
Increase in other assets	(12,346)
Change in joint venture investments, net	401,570
Net cash used in investing activities	(490,833)
FINANCING ACTIVITIES	
Payments on notes payable	(30,883)
Increase in cash	1,350,294
Cash at beginning of period	644,723
Cash at end of period	$1,995,017
SUPPLEMENTAL CASH FLOW DISCLOSURE:	
Cash paid for interest	$ 366,000
Cash paid for income taxes	$ 193,000

See accompanying notes.

NOVA FACTOR, INC.

NOTES TO FINANCIAL STATEMENTS

ELEVEN-MONTH PERIOD ENDED MAY 31, 1996

1. ORGANIZATION AND NATURE OF OPERATIONS

ORGANIZATION

Nova Factor, Inc. (the Company) is a wholly-owned subsidiary of Southern Health Systems, Inc. (SHS), a holding company. Prior to May 31, 1996, Le Bonheur Health Systems, Inc. was the majority shareholder of SHS. On May 31, 1996, Accredo Health, Incorporated (Accredo) (formerly Nova Holdings, Inc.) purchased from Le Bonheur Health Systems, Inc. all of the outstanding shares of SHS common stock. The financial statements reflect the historical cost-basis financial statements of the Company, the predecessor to Accredo, prior to the acquisition.

DESCRIPTION OF BUSINESS

The Company provides specialized contract pharmacy and related services beneficial to patients with certain costly chronic diseases. Because of the unique needs of patients suffering from chronic diseases, biotechnology drug manufacturers have recognized the benefits of customized programs to facilitate alternate site drug administration, ensure compliance with treatment regimens, provide reimbursement assistance and capture valuable clinical and patient

demographic information. The Company addresses the needs of the manufacturers by providing specialized services that facilitate product launch and patient acceptance including timely drug utilization and patient compliance information, patient education and monitoring, reimbursement expertise and overnight drug delivery.

The Company has designed its specialty services to focus primarily on biotechnology drugs that: (i) are used on a recurring basis to treat chronic, and potentially life threatening diseases; (ii) are expensive; (iii) are administered through injection; and (iv) require temperature control or other specialized handling as part of their distribution process.

2. SIGNIFICANT ACCOUNTING POLICIES

REVENUE RECOGNITION

Net patient service revenues are reported at the net amounts billed to patients, third-party payors and others in the period the services are rendered. The Company has agreements with certain third party-payors that provide for payments to the Company at amounts discounted from its established rates.

Approximately 18% of gross patient service revenue for the eleven-month period ended May 31, 1996, is from participation in the Medicare and state-sponsored Medicaid programs. The Company grants credit without collateral to its patients.

Other revenues primarily consist of management fees from biotech manufacturers and various management agreements with hospitals and joint ventures. The Company recognizes revenues in the period the services are rendered.

INVENTORIES

Inventories are stated at the lower of cost (first-in, first-out method) or market.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
DEPRECIATION

Provisions for depreciation are computed by the straight-line method based on the estimated useful lives of the related assets of 2 to 7 years.

USE OF ESTIMATES

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Estimates are used primarily in recording the allowance for doubtful accounts.

3. INCOME TAXES

The liability method is used in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company is indemnified for income tax liabilities arising prior to May 31, 1996, by Le Bonheur Health Systems, Inc., SHS's former parent.

SHS files a consolidated federal income tax return. Financial Accounting Standards Board Statement 109, ACCOUNTING FOR INCOME TAXES, requires the allocation of federal income tax expense to the members of a control group that file a consolidated income tax return for federal income tax purposes. Therefore, SHS allocated federal income tax benefits of $72,090 to the Company for the eleven-month period ended May 31, 1996, as if a separate federal income tax return were filed for the Company.

Income tax (expense) benefit consists of the following for the period ended May 31, 1996:

<TABLE>

<S>	<C>
Current federal benefit	$ 150,868
Deferred federal expense	(78,778)
	$ 72,090

</TABLE>

The benefit for income taxes differed from the amount computed by applying the statutory federal income tax rate of 34% for the eleven-month period ended May 31, 1996, due to the following:

<TABLE>

<S>	<C>
Income tax benefit at statutory rate	$ 89,734
Nondeductible expenses	(17,644)
Income tax benefit	$ 72,090

</TABLE>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

4. OPERATING LEASES

The Company leases office space and equipment under various operating leases. Rent expense for all operating leases was approximately $162,000 for the eleven-month period ended May 31, 1996.

4. OPERATING LEASES (CONTINUED)

Future minimum payments, by year and in the aggregate, under noncancelable operating leases with terms of one year or more consist of the following for the years ended June 30:

<TABLE>

<S>	<C>
1997	$ 287,000
1998	287,000
1999	287,000
2000	287,000
2001	263,000
	$1,411,000

</TABLE>

5. DEFINED CONTRIBUTION PLAN

The Company participates in a qualified defined contribution plan of SHS, under Section 401(k) of the Internal Revenue Code (IRC). Substantially all full time employees qualify for participation in the plan. The Company makes matching contributions to the employees' accounts, as defined in the plan. The Company made matching contributions of approximately $7,500 in the eleven-month period ended May 31, 1996.

6. RELATED PARTIES

In connection with the sale of SHS by Le Bonheur Health Systems, Inc. on May 31, 1996, the Company declared a non-cash dividend consisting of the amount owed to the Company by SHS at May 31, 1996 of $7,796,012 by forgiving such amounts due from SHS. This dividend was recorded as a reduction of stockholder's equity. Dividends on a per share basis do not provide meaningful information and are not disclosed herein.

The Company received certain services provided by SHS that include cash management, tax reporting, risk management and executive management. Allocated expenses for such services, amounting to $2,753,268 for the eleven-month period ended May 31, 1996, have been included in the accompanying statement of operations. Charges for these corporate services were based upon a general allocation methodology determined by SHS (used to allocate all corporate overhead expenses to SHS subsidiaries), and were not necessarily allocated based on specific identification of expenses. Management believes the allocation methodology is reasonable, and results in amounts that approximate the amounts that would have been incurred on a stand-alone basis. Additionally, SHS allocated expenses of $1,453,006 incurred in connection with the sale of the Company to Accredo.

Texas Health Pharmaceutical Resources, Teddy Bear Home Care/Drug Therapies and Children's Memorial Home Hemophilia Services are joint ventures in which the Company has a 50% ownership interest. These joint ventures are accounted for by the Company under the equity method of accounting.

The Company provided management services to these joint ventures of approximately $342,000 for the eleven-month period ended May 31, 1996. The management fees are recorded as other revenues in the accompanying statement of operations.

7. INVESTMENT IN JOINT VENTURES

Texas Health Pharmaceutical Resources, Teddy Bear Home Care/Drug Therapies and Children's Memorial Home Hemophilia Services are partnerships in which the Company has a 50% ownership interest. Campus Home Health Care-Home Hemophilia is a limited liability company in which the Company has a 25% ownership interest. These joint ventures are accounted for by the Company under the equity method of accounting. The portion of the Company's retained earnings at May 31, 1996, attributable to undistributed earnings of these joint ventures is $1,130,000.

The Company provided management services to these joint ventures of $578,000 for the eleven-month period ended May 31, 1996, which are recorded as other revenues in the accompanying statement of operations.

Summary financial information for affiliated joint ventures (20 percent to 50 percent owned) accounted for by the equity method is as follows as of and for the period ended May 31, 1996:

<TABLE>
<CAPTION>

	1996
<S>	<C>
Current assets	$3,372,000
Property and equipment and other assets	14,000
Current liabilities	1,127,000
Total revenues	10,498,000
Net loss	(278,000)

</TABLE>

REPORT OF INDEPENDENT AUDITORS

Board of Directors
Horizon Health Systems, Inc.

We have audited the accompanying statements of income, stockholders' equity and cash flows for Horizon Health Systems, Inc. (the "Company") for the years ended December 31, 1995 and 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the results of operations, changes in stockholders' equity and cash flows of Horizon Health Systems, Inc. for the years ended December 31, 1995 and 1996, in conformity with generally accepted accounting principles.

Memphis, Tennessee
July 30, 1998

/s/ Ernst & Young LLP

<TABLE>
<CAPTION>

	YEARS ENDED DECEMBER 31,		THREE MONTHS ENDED	
	1995	1996	MARCH 31, 1996	MARCH 31, 1997
<S>	<C>	<C>	<C> (UNAUDITED)	<C> (UNAUDITED)
Net patient service revenues.....	2$3,834,480	$27,427,988	$6,311,473	$7,196,407
Operating expenses:				
Cost of services.....	16,820,301	19,757,939	4,514,174	5,141,500
General and administrative.....	4,138,634	4,595,068	911,187	1,062,323
Depreciation and amortization.....	101,866	82,086	22,759	21,079
Total operating expenses.....	21,060,801	24,435,093	5,448,120	6,224,902
Operating income.....	2,773,679	2,992,895	863,353	971,505
Other expense (income):				
Interest income.....	(19,532)	(80,653)	(17,281)	(17,149)
Interest expense.....	100,831	17,384	14,515	--
	81,299	(63,269)	(2,766)	(17,149)
Income before income taxes.....	2,692,380	3,056,164	866,119	988,654
State income taxes.....	112,574	143,562	51,967	40,853
Net income.....	$2,579,806	$2,912,602	$ 814,152	$ 947,801

</TABLE>

See accompanying notes.

HORIZON HEALTH SYSTEMS, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY

<TABLE>
<CAPTION>

	COMMON SHARES	COMMON STOCK	RETAINED EARNINGS	TOTAL STOCKHOLDERS' EQUITY
<S>	<C>	<C>	<C>	<C>
Balance at January 1, 1995.....	100	$ 150,100	$1,479,488	$1,629,588
Net income.....	--	--	2,579,806	2,579,806
Dividends paid.....	--	--	(1,148,650)	(1,148,650)
	--			
Balance at December 31, 1995.....	100	150,100	2,910,644	3,060,744
Net income.....	--	--	2,912,602	2,912,602
Dividends paid.....	--	--	(1,800,000)	(1,800,000)
	--			
Balance at December 31, 1996.....	100	150,100	4,023,246	4,173,346
Net income.....	--	--	947,801	947,801
Dividends paid.....	--	--	(400,000)	(400,000)
	--			
Balance at March 31, 1997 (unaudited).....	100	$ 150,100	$4,571,047	$4,721,147
	--			
	--			

</TABLE>

See accompanying notes.

HORIZON HEALTH SYSTEMS, INC.

STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

	YEARS ENDED DECEMBER 31,		THREE MONTHS ENDED	
	1995	1996	MARCH 31, 1996	MARCH 31, 1997

<S>	<C>	<C>	<C> (UNAUDITED)	<C> (UNAUDITED)
OPERATING ACTIVITIES				
Net income	$2,579,806	$2,912,602	$ 814,152	$ 947,801
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	101,866	82,086	22,759	21,079
Loss on abandoned property	--	32,516	--	--
Changes in operating assets and liabilities:				
Patient receivables and other	596,058	(1,291,267)	734,136	577,996
Inventories	(625,878)	(210,472)	36,206	133,674
Prepaids and other assets	(55,039)	(6,456)	44,482	8,388
Accounts payable and accrued expenses	230,304	715,371	(580,217)	(745,315)
Refunds payable	(33,523)	620,400	--	--
Income taxes payable	10,625	(61,655)	(40,120)	(30,310)
Net cash provided by operating activities	2,804,219	2,793,125	1,031,398	913,313
INVESTING ACTIVITIES				
Purchases of property and equipment	(65,630)	(70,981)	(42,758)	(112,317)
FINANCING ACTIVITIES				
Proceeds from long term obligations	750,000	--	--	--
Net payments on line of credit	(1,768,000)	--	--	--
Principal payments on long-term debt	(125,000)	(625,000)	(37,500)	--
Payment of dividends	(1,148,650)	(1,800,000)	(600,000)	(400,000)
Net cash used in financing activities	(2,291,650)	(2,425,000)	(637,500)	(400,000)
Increase in cash and cash equivalents	446,939	297,144	351,140	400,996
Cash and cash equivalents at beginning of period	729,722	1,176,661	1,176,661	1,473,805
Cash and cash equivalents at end of period	$1,176,661	$1,473,805	$1,527,801	$1,874,801
SUPPLEMENTARY CASH FLOW DISCLOSURES:				
Cash paid for interest	$ 100,831	$ 17,384	$ 14,515	$ --
Income taxes paid	$ 101,949	$ 113,130	$ 40,484	$ 105,851

</TABLE>

See accompanying notes.

1. ORGANIZATION AND NATURE OF OPERATIONS

ORGANIZATION

Prior to June 1, 1997, Horizon Health Systems, Inc. d/b/a Hemophilia Health Services (the Company) was organized as an S corporation. On June 1, 1997, Accredo Health, Incorporated (formerly Nova Holdings, Inc.) acquired substantially all of the assets of the Company and the Company became a wholly-owned subsidiary of Accredo Health, Incorporated.

DESCRIPTION OF BUSINESS

The Company is engaged in the sale and distribution of clotting factors and ancillary supplies to hemophilia patients located throughout the United States. The Company provides value-added clinical and distribution services to patients and payors such as insurance companies, health maintenance organizations, self insured employers and through the federal Medicare and state-funded health care programs.

2. SIGNIFICANT ACCOUNTING POLICIES

REVENUE RECOGNITION

Net patient service revenues are reported at the net amounts billed to patients, third-party payors and others in the period the services are rendered. The Company has agreements with certain third-party payors that provide for

payments to the Company at amounts discounted from its established rates. The Company grants credit without collateral to its patients.

INVENTORIES

Inventories are stated at the lower of cost (first-in, first-out method) or market.

DEPRECIATION AND AMORTIZATION

Provisions for depreciation and amortization are computed principally by accelerated and straight-line methods based on the estimated useful lives of the related assets of 5 to 7 years.

USE OF ESTIMATES

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

3. INCOME TAXES

The Company, with the consent of its shareholders, has elected to be an S Corporation under the Internal Revenue Code. Instead of the Company paying federal corporate income taxes, the stockholders are taxed individually on the Company's taxable income. Therefore no provision for federal income taxes has been made. The Company is liable for state franchise and excise taxes and, accordingly, a provision has been made for such taxes.

4. OPERATING LEASES

The Company leases office space and equipment under various operating leases. Rent expense for all operating leases was approximately $274,000 and $226,000 for the years ended December 31, 1995 and 1996, respectively.

Future minimum payments, by year and in the aggregate, under noncancelable operating leases with initial terms of one year or more consist of the following at December 31, 1996:

<TABLE>
<S> <C>
1997 $ 251,000
1998 226,000
1999 198,000
$ 675,000
</TABLE>

5. RELATED PARTIES

The Company leased office space from the President and 79% owner of the Company prior to June 1, 1997. Monthly payments on the lease, which expires November 1999, are $17,988.

6. NOTES PAYABLE

At December 31, 1995, the Company had a promissory note with a bank for $750,000. The note carried interest at the bank's prime rate plus an additional amount based on the Company's leverage rate, ranging from 0.25% to 1.0% (9.5% at December 31, 1995). The note was paid in full during 1996.

7. UNAUDITED INTERIM FINANCIAL STATEMENTS

The unaudited financial statements for the three-month periods ended March 31, 1996 and 1997, have been prepared in accordance with generally accepted accounting principles for interim financial information and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting of recurring adjustments, necessary for a fair presentation have been included. Operating results for the three-month periods ended March 31, 1996 and 1997, are not necessarily indicative of the results that may be expected for the entire year.

REPORT OF INDEPENDENT AUDITORS

To the Partners
Texas Health Pharmaceutical Resources

We have audited the accompanying balance sheet of Texas Health Pharmaceutical Resources (the Partnership) as of June 30, 1997, and the related statements of operations, partners' equity and cash flows for the year then ended. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Texas Health Pharmaceutical Resources at June 30, 1997, and the results of its operations and cash flows for the year then ended in conformity with generally accepted accounting principles.

/s/ Ernst & Young LLP

Memphis, Tennessee

August 21, 1998

TEXAS HEALTH PHARMACEUTICAL RESOURCES

BALANCE SHEETS

<TABLE>
<CAPTION>

	JUNE 30,	
	1997	1998
		(UNAUDITED)
<S>	<C>	<C>
ASSETS		
Current assets:		
Cash and cash equivalents	$ 198,728	$ 53,979
Receivables:		
Patient accounts	602,827	520,806
Allowance for doubtful accounts	(123,003)	(170,160)
	479,824	350,646
Due from affiliates	183,239	192,096
Other	39,515	124,765
	702,578	667,507
Inventories	413,371	252,731
Prepaids and other current assets	3,860	1,159
Total current assets	1,318,537	975,376
Furniture and equipment, net of accumulated depreciation of $24,397 and $30,356 for 1997 and 1998, respectively	56,575	55,385
Total assets	$ 1,375,112	$ 1,030,761
LIABILITIES AND PARTNERS' EQUITY		
Current liabilities:		
Accounts payable	$ 583,026	$ 388,156
Accrued expenses	10,173	29,281
Due to partner	7,851	13,896
Total current liabilities	601,050	431,333
Partners' equity	774,602	599,428
Total liabilities and partners' equity	$ 1,375,112	$ 1,030,761

</TABLE>

See accompanying notes.

TEXAS HEALTH PHARMACEUTICAL RESOURCES

STATEMENTS OF OPERATIONS

<TABLE>
<CAPTION>

	YEARS ENDED JUNE 30,		
	1996	1997	1998
<S>	<C>	<C>	<C>
	(UNAUDITED)		(UNAUDITED)
Revenues:			
Net patient service revenue	$7,465,691	$7,217,045	$3,840,253
Other revenue	--	43,315	718,469
Total revenues	7,465,691	7,260,360	4,558,722
Expenses:			
Cost of services	5,480,648	5,300,908	2,771,129
General and administrative	144,005	162,534	166,626
Management, accounting and reimbursement fees	771,085	245,967	194,198
Bad debts	223,369	283,357	177,351
Depreciation	2,120	13,350	13,857
Total operating expenses	6,621,227	6,006,116	3,323,161
Operating income	844,464	1,254,244	1,235,561
Other income (expense):			
Interest income	--	19,691	14,268
Forgiveness of amounts due from affiliates	(1,635,143)	--	--
	(1,635,143)	19,691	14,268
Net income (loss)	$(790,679)	$1,273,935	$1,249,829

</TABLE>

See accompanying notes.

TEXAS HEALTH PHARMACEUTICAL RESOURCES

STATEMENTS OF PARTNERS' EQUITY

<TABLE>
<CAPTION>

<S>	<C>
Balance at June 30, 1995 (unaudited)	$2,240,806
Net loss (unaudited)	(790,679)
Balance at June 30, 1996	1,450,127
Distributions to partners	(1,950,000)
Net income	1,273,935
Balance at June 30, 1997	774,062
Distributions to partners (unaudited)	(1,424,463)
Net income (unaudited)	1,249,829
Balance at June 30, 1998 (unaudited)	$ 599,428

</TABLE>

See accompanying notes.

TEXAS HEALTH PHARMACEUTICAL RESOURCES

STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

	YEARS ENDED JUNE 30,		
	1996	1997	1998

<S>	<C>	<C>	<C>
	(UNAUDITED)		(UNAUDITED)
OPERATING ACTIVITIES			
Net income (loss)	$(790,679)	$1,273,935	$1,249,829
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	2,120	13,350	13,857
Gain on sale of equipment	--	--	(2,000)
Forgiveness of amounts due from affiliates	1,635,143	--	--
Provision for losses on patient accounts receivable	223,369	283,357	177,351
Changes in operating assets and liabilities:			
Patient receivables and other	(612,037)	645,220	(133,423)
Due from affiliates	(485,375)	(107,636)	(8,857)
Inventories	310,329	(1,104)	160,640
Prepaids and other current assets	(10,551)	6,691	2,701
Accounts payable and accrued expenses	(517,463)	333,754	(175,762)
Due to partner	425,652	(410,736)	6,045
Net cash provided by operating activities	180,508	2,036,831	1,290,381
INVESTING ACTIVITIES			
Purchases of furniture and equipment	(62,276)	(6,335)	(12,667)
Proceeds from sale of equipment	--	--	2,000
Net cash used in investing activities	(62,276)	(6,335)	(10,667)
FINANCING ACTIVITIES			
Distributions to general partners	--	(1,950,000)	(1,424,463)
Increase (decrease) in cash and cash equivalents	118,232	80,496	(144,749)
Cash and cash equivalents at beginning of year	--	118,232	198,728
Cash and cash equivalents at end of year	$ 118,232	$ 198,728	$ 53,979

</TABLE>

See accompanying notes.

TEXAS HEALTH PHARMACEUTICAL RESOURCES

NOTES TO FINANCIAL STATEMENTS

(UNAUDITED AS TO 1996 AND 1998)
YEARS ENDED JUNE 30, 1996, 1997 AND 1998

1. ORGANIZATION AND NATURE OF OPERATIONS

ORGANIZATION

Texas Health Pharmaceutical Resources (the Partnership) is a general partnership formed on July 1, 1994. The Partnership has two general partners, Nova Factor, Inc. (NFI) and Alternative Care Systems, Inc. (ACS), each of which has a 50% ownership interest and shares equally in the profits and losses of the Partnership. Under the partnership agreement, the partnership term will end on March 31, 1999, unless extended by mutual agreement of the partners.

DESCRIPTION OF BUSINESS

The purpose of the Partnership is to provide specialized contract pharmacy services beneficial to patients with certain costly chronic diseases. The Partnership markets, sells and distributes drugs such as growth hormone and provides hemophilia therapy services and supplies.

2. SIGNIFICANT ACCOUNTING POLICIES

CASH AND CASH EQUIVALENTS

The Partnership considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

PATIENT ACCOUNTS RECEIVABLE

The Partnership's primary concentration of credit risk is patient accounts receivable, which consists of amounts owed by various governmental agencies, insurance companies and private patients. The Partnership manages the receivables by regularly reviewing its accounts and contracts and by providing appropriate allowances for uncollectible accounts. Significant concentrations of gross patient accounts receivable are as follows at June 30:

<TABLE>
<CAPTION>

	1997	1998 (UNAUDITED)
<S>	<C>	<C>
Medicare	24%	14%
Medicaid	29%	32%

</TABLE>

Concentration of credit risk relating to accounts receivable is limited to some extent by the diversity and number of patients and payors, and could be adversely affected by the geographic service area of the business which, under the partnership agreement, is the area encompassed within the 50-mile radius of Dallas, Texas, and within the city limits of Lubbock, Texas. The Partnership grants credit without collateral to its patients.

INVENTORIES

Inventories are stated at the lower of cost (first-in, first-out method) or market.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value of receivables and accounts payable approximates fair value of these financial instruments.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
FURNITURE AND EQUIPMENT

Furniture and equipment are stated at cost. Provisions for depreciation are computed by the straight-line method based on the estimated useful lives of the related assets of three to seven years.

REVENUE RECOGNITION

Net patient service revenues are reported at the net amounts billed to patients, third-party payors and others in the period the services are rendered. The Partnership has agreements with certain third-party payors that provide for payments to the Partnership at amounts discounted from its established rates. Approximately 59% (unaudited), 63% and 63% (unaudited) of gross patient service revenues for the years ended June 30, 1996, 1997 and 1998, respectively, are from participation in the Medicare and state-sponsored Medicaid programs.

Other revenues primarily consist of management fees. Management fees are primarily based upon the amount of patient service revenues generated by a hospital program managed by the Partnership.

USE OF ESTIMATES

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Estimates are used primarily in recording the allowances for doubtful accounts.

3. OPERATING LEASES

The Partnership leases office space and equipment under various operating leases. Rent expense for all operating leases was approximately $1,700 (unaudited), $15,000 and $15,000 (unaudited), for the years ended June 30, 1996, 1997 and 1998, respectively.

Future minimum payments, by year and in the aggregate, under noncancelable operating leases with terms of one year or more, consist of the following for the years ended June 30:

<TABLE>

<S>	<C>
1999	$ 14,000
2000	13,000
	$ 27,000

</TABLE>

4. RELATED PARTIES

During 1996, the Partnership forgave $1,635,143 (unaudited) of amounts due from affiliates in which ACS and an affiliate of NFI were each 50% partners. Due from affiliates of $183,239 and $192,096 (unaudited) at June 30, 1997 and 1998, respectively, consists of accounts receivable from other entities affiliated with NFI.

The Partnership receives certain services provided by NFI that include cash management, tax reporting, risk management, executive management, computer processing, and accounting and reimbursement services. For these services, the Partnership pays management, reimbursement and accounting fees to NFI. Management, accounting and reimbursement fees were $771,085 (unaudited), $245,967 and $194,198 (unaudited) for the years ended June 30, 1996, 1997 and 1998, respectively. The Partnership received management fees of approximately $708,000 (unaudited) from an affiliate of ACS for the year ended June 30, 1998.

5. INCOME TAXES

No provision is made in the accounts of the Partnership for federal and state income taxes, as such taxes are liabilities of the partners. The Partnership's tax returns and amounts of allocable Partnership revenues and expenses are subject to examination by federal and state taxing authorities. If such examinations occur and result in changes, the portion of the Partnership's income or loss reported by the partners may also change.

REPORT OF INDEPENDENT AUDITORS

To the Partners
Children's Memorial Home Hemophilia Services

We have audited the accompanying balance sheet of Children's Memorial Home Hemophilia Services (the Partnership) as of June 30, 1997, and the related statements of income, partners' equity and cash flows for the year then ended. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Children's Memorial Home Hemophilia Services at June 30, 1997, and the results of its operations and cash flows for the year then ended in conformity with generally accepted accounting principles.

/s/ Ernst & Young LLP

Memphis, Tennessee
March 19, 1999

CHILDREN'S MEMORIAL HOME HEMOPHILIA SERVICES
BALANCE SHEETS

	JUNE 30	
	1997	1998
		(UNAUDITED)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 252,352	$ 306,029
Receivables:		
Patient accounts	569,830	420,159
Allowance for doubtful accounts	(4,461)	(29,446)
	565,369	390,713
Total current assets	817,721	696,742
Furniture and equipment, net of accumulated depreciation of $29 for 1998	--	404
Total assets	$ 817,721	$ 697,146
LIABILITIES AND PARTNERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 155,953	$ 163,909
Due to partner	221,874	288,149
Total current liabilities	377,827	452,058
Partners' equity	439,894	245,088
Total liabilities and partners' equity	$ 817,721	$ 697,146

See accompanying notes.

CHILDREN'S MEMORIAL HOME HEMOPHILIA SERVICES

STATEMENTS OF INCOME

	YEARS ENDED JUNE 30,		
	1996	1997	1998
	(UNAUDITED)		(UNAUDITED)
Revenues:			
Net patient service revenues	$ 1,777,291	$ 2,572,296	$ 2,826,371
Expenses:			
Cost of services	1,253,644	1,701,032	1,839,937
General and administrative	2,304	2,347	1,043
Management, accounting and reimbursement fees	14,041	22,473	106,810
Bad debts	59,314	181,713	212,452
Depreciation	--	--	29
Total operating expenses	1,329,303	1,907,565	2,160,271
Operating income	447,988	664,731	666,100
Other income:			
Interest income	2,039	6,732	9,094

Net income	$ 450,027	$ 671,463	$ 675,194

</TABLE>

See accompanying notes.

CHILDREN'S MEMORIAL HOME HEMOPHILIA SERVICES

STATEMENTS OF PARTNERS' EQUITY

<TABLE>

<S>	<C>
Balance at June 30, 1995 (unaudited)	$ 828,404
Distributions to partners (unaudited)	(900,000)
Net income (unaudited)	450,027
Balance at June 30, 1996	378,431
Distributions to partners	(610,000)
Net income	671,463
Balance at June 30, 1997	439,894
Distributions to partners (unaudited)	(870,000)
Net income (unaudited)	675,194
Balance at June 30, 1998 (unaudited)	$ 245,088

</TABLE>

See accompanying notes.

CHILDREN'S MEMORIAL HOME HEMOPHILIA SERVICES

STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

	YEARS ENDED JUNE 30,		
	1996	1997	1998
<S>	<C> (UNAUDITED)	<C>	<C> (UNAUDITED)
OPERATING ACTIVITIES			
Net income	$ 450,027	$ 671,463	$ 675,194
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	--	--	29
Provision for losses on patient receivables	59,314	181,713	212,452
Changes in operating assets and liabilities:			
Patient receivables	219,704	(96,815)	(37,796)
Accounts payable and accrued expenses	105,751	12,501	7,956
Due to partner	(94,958)	31	66,275
Net cash provided by operating activities	739,838	768,893	924,110
INVESTING ACTIVITIES			
Purchases of furniture and equipment	--	--	(433)
FINANCING ACTIVITIES			
Distributions to general partners	(900,000)	(610,000)	(870,000)
Increase (decrease) in cash and cash equivalents	(160,162)	158,893	53,677

Cash and cash equivalents at beginning of year.....	253,621	93,459	252,352
Cash and cash equivalents at end of year.....	$ 93,459	$ 252,352	$ 306,029

</TABLE>

See accompanying notes.

CHILDREN'S MEMORIAL HOME HEMOPHILIA SERVICES

NOTES TO FINANCIAL STATEMENTS

(UNAUDITED AS TO 1996 AND 1998)

YEARS ENDED JUNE 30, 1996, 1997 AND 1998

1. ORGANIZATION AND NATURE OF OPERATIONS

Children's Memorial Home Hemophilia Services (the Partnership) is a general partnership formed on October 27, 1992. The Partnership has two general partners, Nova Factor, Inc. (NFI) and CM Healthcare Resources, Inc. (CMH), each of which has a 50% ownership interest and shares equally in the profits and losses of the Partnership. Under the partnership agreement, the partnership term initially ended on October 31, 1997, with automatic extensions of six months, unless terminated by mutual agreement of the partners.

DESCRIPTION OF BUSINESS

The purpose of the Partnership is to market, sell and provide hemophilia therapy services and supplies to pediatric patients in a home setting.

2. SIGNIFICANT ACCOUNTING POLICIES

CASH AND CASH EQUIVALENTS

The Partnership considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

PATIENT ACCOUNTS RECEIVABLE

The Partnership's primary concentration of credit risk is patient accounts receivable, which consists of amounts owed by various governmental agencies, insurance companies and private patients. The Partnership manages the receivables by regularly reviewing its accounts and contracts and by providing appropriate allowances for uncollectible accounts. Significant concentrations of gross patient accounts receivable are as follows at June 30:

<TABLE>
<CAPTION>

	1997	1998
<S>	<C>	<C>

		(UNAUDITED)
Medicaid	3%	19%
Cigna	38%	18%

</TABLE>

Concentration of credit risk relating to accounts receivable is limited to some extent by the diversity and number of patients and payors, and could be adversely affected by the geographic service area of the business which, under the partnership agreement, encompasses the counties of McHenry, Cook, Du Page, Lake, Will, Kendall and Kane located in the State of Illinois. The Partnership grants credit without collateral to its patients.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value of receivables and accounts payable approximates fair value of these financial instruments.

FURNITURE AND EQUIPMENT

Furniture and equipment are stated at cost. Provisions for depreciation are computed by the straight-line method based on the estimated useful lives of the related assets of three to seven years.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REVENUE RECOGNITION

Net patient service revenues are reported at the net amounts billed to patients, third-party payors and others in the period the services are rendered. The Partnership has agreements with certain third-party payors that provide for payments to the Partnership at amounts discounted from its established rates. Approximately 49% (unaudited), 12% and 10% (unaudited) of gross patient service revenues for the years ended June 30, 1996, 1997 and 1998, respectively, are from participation in the state-sponsored Medicaid program.

USE OF ESTIMATES

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Estimates are used primarily in recording the allowances for contractual adjustments and bad debts.

3. RELATED PARTIES

The Partnership receives certain services provided by NFI that include cash management, tax reporting, risk management, executive management, computer processing, and accounting and reimbursement services. For these services, the Partnership pays management, reimbursement and accounting fees to NFI. Management, accounting and reimbursement fees were $14,041 (unaudited), $22,473 and $106,810 (unaudited) for the years ended June 30, 1996, 1997 and 1998, respectively.

4. INCOME TAXES

No provision is made in the accounts of the Partnership for federal and state income taxes, as such taxes are liabilities of the partners. The Partnership's tax returns and amounts of allocable Partnership revenues and expenses are subject to examination by federal and state taxing authorities. If such examinations occur and result in changes, the portion of the Partnership's income or loss reported by the partners may also change.

NO DEALER, SALESPERSON OR OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS, AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY OR THE UNDERWRITERS. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, TO ANY PERSON IN ANY JURISDICTION IN WHICH SUCH OFFER OR SOLICITATION IS UNLAWFUL, OR TO ANY PERSON TO WHOM IT IS UNLAWFUL. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE COMPANY OR THAT THE INFORMATION CONTAINED HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO THE DATE HEREOF.

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<TABLE>
<CAPTION>

</TABLE>

UNTIL , 1999 (25 DAYS AFTER THE COMMENCEMENT OF THE OFFERING), ALL DEALERS EFFECTING TRANSACTIONS IN THE COMMON STOCK, WHETHER OR NOT PARTICIPATING IN THIS DISTRIBUTION, MAY BE REQUIRED TO DELIVER A PROSPECTUS. THIS DELIVERY REQUIREMENT IS IN ADDITION TO THE OBLIGATION OF DEALERS TO DELIVER A PROSPECTUS WHEN ACTING AS UNDERWRITERS AND WITH RESPECT TO THEIR UNSOLD ALLOTMENTS OR SUBSCRIPTIONS.

3,000,000 SHARES

[LOGO]

COMMON STOCK

PROSPECTUS

HAMBRECHT & QUIST

NATIONSBANC MONTGOMERY
SECURITIES LLC

SUNTRUST EQUITABLE
SECURITIES

, 1999

PART II
INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

The following table sets forth the estimated expenses to be borne by the Company in connection with the issuance and distribution of the securities being registered hereby, other than underwriting discounts and commissions. The Company is paying all of these expenses in connection with the issuance and distribution of the securities.

<TABLE>

<S>	<C>
SEC Registration Fee	$ 25,774
NASD Filing Fee	7,000
Nasdaq Original Listing Fee	
Accountants' Fees and Costs	
Legal Fees and Costs	
Printing and Engraving Costs	
Blue Sky Fees and Costs	
Transfer Agent and Registrar fees	
Insurance Premium Associated with Registration	
Miscellaneous	
Total	$1,500,000

</TABLE>

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS

The Company's Amended and Restated Certificate of Incorporation provides that the Company shall, to the fullest extent permitted by Section 145 of the DGCL, as amended from time to time, indemnify its officers and directors.

Section 145 of the DGCL permits a corporation, under specified circumstances, to indemnify its directors, officers, employees or agents against expenses (including attorney's fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by them in connection with any action, suit or proceeding brought by third parties by reason of the fact that they were or are directors, officers, employees or agents of the corporation, if such directors, officers, employees or agents acted in good faith and in a manner they reasonably believed to be in or not opposed to the best interests of the corporation and, with respect to any criminal action or proceeding, had no reason to believe their conduct was unlawful. In a derivative action, i.e., one by or in the right of the corporation, indemnification may be made only for expenses actually and reasonably incurred by directors, officers, employees or agents in connection with the defense or settlement of any action or suit, and only with respect to a matter as to which they shall have acted in good faith and in a manner they reasonably believed to be in or not opposed to the best interests of the corporation, except that no indemnification shall be made if such person shall have been adjudged liable to the corporation, unless and only to the extent that the court in which the action or suit was brought shall determine upon application that the defendant directors, officers, employees or agents are fairly and reasonably entitled to indemnity for such expenses despite such adjudication of liability.

The Company's Amended and Restated Certificate of Incorporation contains a provision which eliminates, to the fullest extent permitted by the DGCL, director liability for monetary damages for breaches of the fiduciary duty of care or any other duty as a director.

The Company intends to purchase a policy of director's and officer's insurance that would in certain instances provide the funds necessary for the Company to meet its indemnification obligations under its Amended and Restated Certificate of Incorporation.

Reference is hereby made to Section of the Underwriting Agreement, the form of which is filed as Exhibit 1.1 hereto, in which the Company has agreed to indemnify the Underwriters and certain other persons against certain liabilities.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES

In connection with the Company's original capitalization, on May 31, 1996 the Company sold to Welsh, Carson, Anderson & Stowe VII, L.P. ("WCAS VII") and certain of its affiliates an aggregate of 4,972,534 shares of Common Stock for $14,917,602 and an aggregate of 248,624 shares of Series A Preferred Stock for $24,862,400. In addition, certain other investors acquired 27,466 shares of Common Stock for $82,398 and 1,376 shares of Series A Cumulative Preferred Stock for $137,600.

In connection with the Company's acquisition of Southern Health Systems, Inc. ("SHS") on May 31, 1996, Messrs. Grow, Kimbrough and Stevens (in addition to certain other holders of SHS common stock) exchanged their shares of SHS common stock for 19,560, 12,225 and 61,125 shares of the Company's Common Stock, respectively, and 978 shares, 611 shares and 3,056 shares of the Series A Preferred Stock, respectively.

In order to finance the acquisition of Hemophilia Health Services, Inc. formerly known as Horizon Health Systems, Inc. ("HHS") and to provide working capital, the Company issued $10.0 million in Senior Subordinated Notes to WCAS VII and certain of its affiliates on June 4, 1997. In connection with the issuance of the Senior Subordinated Notes, the Company issued an aggregate of 400,000 shares of Common Stock to the holders of the Senior Subordinated Notes. Furthermore, as a condition to the acquisition of HHS and the appointment of Kyle J. Callahan to the Company's Board of Directors, Mr. Callahan acquired 41,667 shares of the Company's Common Stock for $250,002 on October 1, 1997.

In connection with the appointment of Kenneth J. Melkus to the Company's Board of Directors, Lauren Melkus acquired 41,667 shares of Common Stock for $250,002 on October 27, 1997.

In connection with the appointment of Kenneth R. Masterson to the Company's Board of Directors, the Company sold 34,000 shares of Common Stock to Mr. Masterson for $204,000 on July 24, 1998 pursuant to a subscription agreement entered into by Mr. Masterson in April 1998.

Except as otherwise noted, all issuances of securities described above were made in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended, as transactions by an issuer not involving a public offering.

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(A) Exhibits

<TABLE>
<C> <S>

1.1 Form of Underwriting Agreement

*3.1 Amended and Restated Certificate of Incorporation of the Registrant

*3.2 Amended and Restated Bylaws of the Registrant

4.1 Form of Common Stock Certificate

5.1 Opinion of Alston & Bird LLP with respect to validity of Common Stock

+10.1 Employment Agreement dated May 31, 1996 between the Company and David D. Stevens

+10.2 Employment Agreement dated May 31, 1996 between the Company and John R. Grow

+10.3 Employment Agreement dated May 31, 1996 between the Company and Joel R.

Kimbrough

+10.4 Employment Agreement dated June 5, 1997 between the Company and Kyle J. Callahan

+10.5 Employment Agreement dated July 10, 1998 between the Company and Thomas W. Bell Jr.

*10.6 Accredo Health 1999 Long-Term Incentive Plan

*10.7 Accredo Health 1999 Employee Stock Purchase Plan
</TABLE>

<TABLE>
<C> <S>
+10.8 Nova Holdings, Inc. and its Subsidiaries Stock Option and Restricted Purchase Plan, as amended and restated

+10.9 Note Purchase Agreement dated June 4, 1997 among the Company, Welsh, Carson, Anderson & Stowe VII, L.P. and certain other investors

+10.10 Registration Rights Agreement dated May 31, 1996 among the Company, Welsh, Carson, Anderson & Stowe VII, L.P. and certain other investors

+10.11 Amendment Number One to the Registration Rights Agreement dated October 27, 1997 among the Company, Welsh, Carson, Anderson & Stowe VII, L.P. and certain other investors

+10.12 Amendment Number Two to the Registration Rights Agreement dated July 24, 1998 among the Company, Welsh, Carson, Anderson & Stowe VII, L.P. and certain other investors

+10.13 Subscription and Exchange Agreement dated May 31, 1996 among the Company and certain purchasers and exchanging shareholders

+10.14 Stock Purchase Agreement dated May 31, 1996 among Le Bonheur Health Systems, Inc., Southern Health Systems, Inc., the Company and Welsh, Carson, Anderson & Stowe VII, L.P.

+10.15 Modification Agreement dated May 31, 1996 among Le Bonheur Health Systems, Inc., Southern Health Systems, Inc., Nova Holdings, Inc. and Welsh, Carson Anderson & Stowe VII, L.P.

+10.16 Non-Disclosure and Non-Competition Agreement dated May 31, 1996 by and among Le Bonheur Health Systems, Inc., PharmaThera, Inc., Welsh, Carson, Anderson & Stowe VII, L.P., Southern Health Systems, Inc., Nova Factor, Inc. and Nova Holdings, Inc.

+10.17 Stock Purchase Agreement dated as of June 5, 1997 among Dianne R. Martz, A.B. Charlton, III, the Company and Horizon Health Systems, Inc.

+10.18 Non-Disclosure and Non-Compete Agreement dated as of June 5, 1997 by and among Horizon Health Systems, Inc., the Company and Dianne R. Martz

+10.19 Grant Agreement dated as of June 5, 1997 by and between Kyle Callahan and the Company

+10.20 Subscription and Restriction Agreement dated as of June 5, 1997 by and between the Company and Kyle Callahan

+10.21 Consulting and Transition Agreement dated as of June 5, 1997 by and between Dianne Martz and Horizon Health Systems, Inc.

+10.22 Letter Agreement dated as of June 3, 1997 from Andrew M. Paul to Kyle Callahan regarding Mr. Callahan's election to the Board of Directors of the Company

+10.23 Lease Agreement dated September 1, 1994 between Dianne Martz and Horizon Health Systems, Inc.

+10.24 Addendum to Lease Agreement dated September 1, 1994 amending the square footage of Premises and annual rental payments

+10.25 Escrow Agreement dated June 5, 1997 among First American National Bank, Nova Holdings, Inc. and Dianne Martz and A. B. Charlton, III

+10.26 Refunds Payable Escrow Agreement dated June 5, 1997 among First American National Bank, Nova Holdings, Inc. and Dianne Martz and A. B. Charlton, III

+10.27 Contract for the Sale and Distribution of Genentech Human Growth Hormone dated March 1, 1997 by and between Genentech, Inc. and Nova Factor, Inc. (The Company has requested confidential treatment of certain portions of this Exhibit.)

+10.28	Distribution Agreement dated September 30, 1994 by and between Nova Factor, Inc. and Genzyme Corporation (The Company has requested confidential treatment of certain portions of this Exhibit.)

</TABLE>

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+10.29	Amendment No. 1 to Distribution Agreement dated January 1, 1995 by and between Nova Factor, Inc. and Genzyme Corporation (The Company has requested confidential treatment of certain portions of this Exhibit.)
+10.30	Second Amended and Restated Distribution Agreement dated July 1, 1994 by and among PharmaThera, Inc., Nova Factor, Inc. and Genzyme Corporation (The Company has requested confidential treatment of certain portions of this Exhibit.)
+10.31	Amendment No. 1 to Second Amended and Restated Distribution Agreement dated September 30, 1994 by and between PharmaThera, Inc., Nova Factor, Inc. and Genzyme Corporation (The Company has requested confidential treatment of certain portions of this Exhibit.)
+10.32	Amendment No. 2 to Second Amended and Restated Distribution Agreement dated January 1, 1995 by and between Nova Factor, Inc. and Genzyme Corporation (The Company has requested confidential treatment of certain portions of this Exhibit.)
+10.33	Distribution and Services Agreement dated November 1, 1995 by and between Biogen, Inc. and Nova Factor, Inc. (The Company has requested confidential treatment of certain portions of this Exhibit.)
+10.34	Amendment No. 1 to Distribution and Services Agreement dated May 17, 1996 by and between Biogen, Inc. and Nova Factor, Inc. (The Company has requested confidential treatment of certain portions of this Exhibit.)
+10.35	Addendum and Amendment No. 2 to Distribution and Services Agreement dated May 21, 1997 by and between Biogen, Inc. and Nova Factor, Inc. (The Company has requested confidential treatment of certain portions of this Exhibit.)
+10.36	Addendum and Amendment No. 3 to Distribution and Services Agreement dated July 1, 1997 by and between Biogen, Inc. and Nova Factor, Inc. (The Company has requested confidential treatment of certain portions of this Exhibit.)
+10.37	Addendum and Amendment No. 4 to Distribution and Services Agreement dated January 1, 1998 by and between Biogen, Inc. and Nova Factor, Inc. (The Company has requested confidential treatment of certain portions of this Exhibit.)
+10.38	Loan and Security Agreement dated as of June 5, 1997 among Nova Holdings, Inc. and its Subsidiaries and NationsBank of Tennessee, N.A. and First Tennessee Bank National Association
+10.39	Swing Line Note dated December 1, 1997 entered into by Nova Holdings, Inc. with NationsBank of Tennessee, N.A.
+10.40	ISDA Master Agreement dated August 7, 1997 between NationsBank of Tennessee, N.A. and Nova Holdings, Inc.
+10.41	Texas Health Pharmaceutical Resources Partnership Agreement dated July 1, 1994 (The Company has requested confidential treatment of certain portions of this Exhibit.)
+10.42	Distribution Business Management and Service Agreement dated July 1, 1994 by and among Southern Health Systems, Inc. and Texas Health Pharmaceutical Resources (The Company has requested confidential treatment of certain portions of this Exhibit.)
+10.43	Amendment No. 1 to Distribution Business Management and Service Agreement dated July 1, 1994 by and among Southern Health Systems, Inc. and Texas Health Pharmaceutical Resources (The Company has requested confidential treatment of certain portions of this Exhibit.)
+10.44	Hemophilia Therapy Pharmacy Management Agreement dated May 9, 1997 by and among Texas Health Pharmaceutical Resources and Children's Medical Center of Dallas (The Company has requested confidential treatment of certain portions of this Exhibit.)

</TABLE>

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+10.45 Amendment No. 1 to Hemophilia Therapy Pharmacy Management Agreement, dated February 28, 1998, by and among Texas Health Pharmaceutical Resources and Children's Medical Center of Dallas (The Company has requested confidential treatment of certain portions of this Exhibit.)

+10.46 Incentive Stock Option Agreement of David Stevens dated May 31, 1996

+10.47 Incentive Stock Option Agreement of Joel R. Kimbrough dated May 31, 1996

+10.48 Incentive Stock Option Agreement of John R. Grow dated May 31, 1996

+10.49 Incentive Stock Option Agreement of Kyle Callahan dated September 3, 1997

+10.50 Non-Qualified Stock Option Agreement of Patrick J. Welsh dated February 9, 1998

+10.51 Non-Qualified Stock Option Agreement of Ken Melkus dated February 9, 1998

+10.52 Incentive Stock Option Agreement of Kyle Callahan dated February 9, 1998

+10.53 Non-Qualified Stock Option Agreement of Andrew M. Paul dated February 9, 1998

+10.54 Non-Qualified Stock Option Agreement of Kenneth R. Masterson dated April 30, 1998

+10.55 Incentive Stock Option Agreement of Thomas W. Bell, Jr. dated July 10, 1998

+10.56 Amendment No. 1 Loan and Security Agreement dated as of August 28, 1998 among Nova Holdings, Inc., a Delaware corporation, and its Subsidiaries and NationsBank of Tennessee, N.A. and First Tennessee Bank National Association

+10.57 Loan Agreement dated November 24, 1998 between NationsBank, N.A. and Children's Hemophilia Services, a California general partnership composed of Children's Home Care, a California not-for-profit public benefit corporation and Horizon Health Systems, Inc., a Tennessee Corporation

+10.58 Limited Guaranty dated November 24, 1998 between NationsBank, N.A. and Accredo Health, Incorporated

+10.59 Promissory Note dated December 24, 1998 between NationsBank, N.A. and Children's Hemophilia Services

+10.60 Amended and Restated General Partnership Agreement of Children's Home Services

+10.61 Amended and Restated General Partnership Agreement of Children's Hemophilia Services

+10.62 Growth Hormone Drug Therapy Business Management, Service and Sales Agreement dated November 10, 1998 between Nova Factor, Inc., a Tennessee corporation, and Children's Home Services, a California general partnership (The Company has requested confidential treatment of certain portions of this Exhibit.)

+10.63 Hemophilia Therapy Business Management, Services and Sales Agreement, dated November 10, 1998 between Horizon Health Systems, Inc., a Tennessee corporation, and Children's Hemophilia Services, a California general partnership (The Company has requested confidential treatment of certain portions of this Exhibit.)

+10.64 Product Supply and Service Agreement dated November 10, 1998 between Nova Factor, Inc., a Tennessee corporation, and Children's Home Care, a California non-profit benefit corporation (The Company has requested confidential treatment of certain portions of this Exhibit.)

10.65 Distribution and Services Agreement dated August 28, 1998 between Centocor, Inc. and its affiliates and Nova Factor, Inc. (The Company has requested confidential treatment of certain portions of this Exhibit.)

10.66 Amendment No. 2 dated March 2, 1999 to Loan and Security Agreement as amended on June 5, 1997 among Accredo Health, Incorporated and its Subsidiaries and NationsBank, N.A. and First Tennessee Bank National Association and NationsBank, N.A. as Agent

</TABLE>

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10.67 Amendment No. 1 to Distribution and Service Agreement dated January 11, 1999 by and between Centocor, Inc. and its Affiliates and Nova Factor, Inc.

*21.1 Subsidiaries of the Company
23.1 Consent of Alston & Bird LLP (included in opinion filed as Exhibit 5.1)
23.2 Consent of Ernst & Young LLP
+24.1 Power of Attorney (included on the signature page)
+27.1 Financial Data Schedule
</TABLE>

(B) Financial Statement Schedules

Accredo Health, Incorporated
Schedule II--Valuation and Qualifying Accounts

Nova Factor, Inc.
Schedule II--Valuation and Qualifying Accounts

Texas Health Pharmaceutical Resources
Schedule II--Valuation and Qualifying Accounts

Children's Memorial Home Hemophilia Services
Schedule II--Valuation and Qualifying Accounts

Schedules other than those listed above are omitted because they are not required or are not applicable, or the required information is shown in the respective financial statements or notes thereto.

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* To be filed by amendment.

\+ Previously filed.

ITEM 17. UNDERTAKINGS

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Company pursuant to the foregoing provisions, or otherwise, the Company has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Company of expenses incurred or paid by a director, officer or controlling person of the Company in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Company will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes to provide to the Representatives of the Underwriters at the closing specified in the underwriting agreements certificates in such denominations and registered in such names as required by the Representatives of the Underwriters to permit prompt delivery to each purchaser.

The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this Registration Statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Memphis, State of Tennessee, on March 26, 1999.

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ACCREDO HEALTH, INCORPORATED

By: /s/ DAVID D. STEVENS

David D. Stevens
CHIEF EXECUTIVE OFFICER

</TABLE>

Pursuant to the requirements of the Securities Act of 1933, this Amendment to the Registration Statement has been signed by the following persons in the capacities indicated on March 26, 1999.

SIGNATURE	TITLE
/s/ DAVID D. STEVENS David D. Stevens	Chief Executive Officer and Chairman of the Board of Directors
* John R. Grow	President and Director
/s/ JOEL R. KIMBROUGH Joel R. Kimbrough	Senior Vice President and Chief Financial Officer (principal financial and accounting officer)
* Kyle J. Callahan	Senior Vice President and Director
* Patrick J. Welsh	Director
* Andrew M. Paul	Director
* Kenneth J. Melkus	Director
* Kenneth R. Masterson	Director

*By: /s/ JOEL R. KIMBROUGH

Joel R. Kimbrough
ATTORNEY-IN-FACT

REPORT OF INDEPENDENT AUDITORS

Board of Directors
Accredo Health, Incorporated

We have audited the consolidated financial statements of Accredo Health, Incorporated as of June 30, 1997 and 1998, and for the period from inception (May 24, 1996) through June 30, 1996, and for the years ended June 30, 1997 and 1998, and have issued our report thereon dated August 12, 1998, except for Notes 1, 2 and 3 as to which the date is March 21, 1999 (included elsewhere in this Registration Statement). Our audit also included the financial statement schedule of the Company listed in Item 16(b) of this Registration Statement. This Schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits.

In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Memphis, Tennessee
August 12, 1998

ACCREDO HEALTH, INCORPORATED

SCHEDULE II--VALUATION AND QUALIFYING ACCOUNTS

<TABLE>
<CAPTION>

COL. A	COL. B	COL. C		COL. D	COL. E
		ADDITIONS			
DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	CHARGED TO COSTS AND EXPENSES	CHARGED TO OTHER ACCOUNTS--DESCRIBE	DEDUCTIONS--DESCRIBE	BALANCE AT END OF PERIOD
<S>	<C>	<C>	<C>	<C>	<C>
Period from inception (May 24, 1996) through June 30, 1996: Allowance for doubtful accounts....	$ --	$ 251,538	$2,749,847 (1)	$291,370 (2)	$2,710,015
Year ended June 30, 1997: Allowance for doubtful accounts....	2,710,015	2,976,718	--	1,884,407 (2)	3,802,326
Year ended June 30, 1998: Allowance for doubtful accounts....	3,802,326	3,165,292	--	3,537,755 (2)	3,429,863

</TABLE>

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(1) Allowance as a result of acquisition of Nova Factor, Inc.

(2) Uncollectible accounts written off, net of recoveries.

REPORT OF INDEPENDENT AUDITORS

Board of Directors

Nova Factor, Inc.

We have audited the statements of operations, stockholder's equity and cash flows of Nova Factor, Inc. for the period July 1, 1995 through May 31, 1996, and have issued our report thereon dated August 30, 1996 (included elsewhere in this Registration Statement). Our audit also included the financial statement schedule of the Company listed in Item 16(b) of this Registration Statement. This Schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audit.

In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Memphis, Tennessee
August 30, 1996

NOVA FACTOR, INC.

SCHEDULE II--VALUATION AND QUALIFYING ACCOUNTS

<TABLE>
<CAPTION>

COL. A	COL. B	COL. C		COL. D	COL. E
		ADDITIONS			
DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	CHARGED TO COSTS AND EXPENSES	CHARGED TO OTHER ACCOUNTS--DESCRIBE	DEDUCTIONS--DESCRIBE	BALANCE AT END OF PERIOD
<S>	<C>	<C>	<C>	<C>	<C>
Period from July 1, 1995 through May 31, 1996: Allowance for doubtful accounts.....	$3,982,980	$1,860,253	$ --	3$,093,386 (1)	$2,749,847

</TABLE>

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(1) Uncollectible accounts written off, net of recoveries.

REPORT OF INDEPENDENT AUDITORS

To the Partners

Texas Health Pharmaceutical Resources

We have audited the financial statements of Texas Health Pharmaceutical Resources as of June 30, 1997, and for the year then ended, and have issued our report thereon dated August 21, 1998 (included elsewhere in this Registration Statement). Our audit also included the information for the year ended June 30, 1997, in the financial statement schedule of the Partnership listed in Item 16(b) of this Registration Statement. This Schedule is the responsibility of the Partnership's management. Our responsibility is to express an opinion based on our audit.

In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein for the year ended June 30, 1997.

/s/ Ernst & Young LLP

Memphis, Tennessee
August 21, 1998

TEXAS HEALTH PHARMACEUTICAL RESOURCES

SCHEDULE II--VALUATION AND QUALIFYING ACCOUNTS

<TABLE>
<CAPTION>

COL. A	COL. B	COL. C		COL. D	COL. E
		ADDITIONS			
DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	CHARGED TO COSTS AND EXPENSES	CHARGED TO OTHER ACCOUNTS--DESCRIBE	DEDUCTIONS--DESCRIBE	BALANCE AT END OF PERIOD
<S>	<C>	<C>	<C>	<C>	<C>
Year ended June 30, 1996 (unaudited):					
Allowance for doubtful accounts.....	$ 248,912	$ 223,369	$ --	$358,995 (1)	$ 113,286
Year ended June 30, 1997:					
Allowance for doubtful accounts.....	113,286	283,357	--	273,640 (1)	123,003
Year ended June 30, 1998 (unaudited):					
Allowance for doubtful accounts.....	123,003	177,351	--	130,194 (1)	170,160

</TABLE>

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(1) Uncollectible accounts written off, net of recoveries.

REPORT OF INDEPENDENT AUDITORS

To the Partners

Children's Memorial Home Hemophilia Services

We have audited the financial statements of Children's Memorial Home Hemophilia Services as of June 30, 1997, and for the year then ended, and have issued our report thereon dated March 19, 1999 (included elsewhere in this Registration Statement). Our audit also included the information for the year ended June 30, 1997, in the financial statement schedule of the Partnership listed in Item 16(b) of this Registration Statement. This Schedule is the responsibility of the Partnership's management. Our responsibility is to express an opinion based on our audit.

In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein for the year ended June 30, 1997.

/s/ Ernst & Young LLP

Memphis, Tennessee
March 19, 1999

CHILDREN'S MEMORIAL HOME HEMOPHILIA SERVICES

SCHEDULE II--VALUATION AND QUALIFYING ACCOUNTS

<TABLE>
<CAPTION>

COL. A	COL. B	COL. C		COL. D	COL. E
		ADDITIONS			
DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	CHARGED TO COSTS AND EXPENSES	CHARGED TO OTHER ACCOUNTS--DESCRIBE	DEDUCTIONS--DESCRIBE	BALANCE AT END OF PERIOD
<S>	<C>	<C>	<C>	<C>	<C>
Year ended June 30, 1996 (unaudited):					
Allowance for doubtful accounts.....	$ 2,712	$ 59,314	$ --	$47,026 (1)	$ 15,000
Year ended June 30, 1997:					
Allowance for doubtful accounts.....	15,000	181,713	--	192,252 (1)	4,461
Year ended June 30, 1998 (unaudited):					
Allowance for doubtful accounts.....	4,461	212,452	--	187,467 (1)	29,446

</TABLE>

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(1) Uncollectible accounts written off, net of recoveries.

<TABLE>
<CAPTION>

EXHIBIT NO.	EXHIBIT INDEX	SEQUENTIALLY NUMBERED PAGE
<C>	<S>	<C>
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*3.2	Amended and Restated Bylaws of the Registrant	
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+10.2	Employment Agreement dated May 31, 1996 between the Company and John R. Grow	
+10.3	Employment Agreement dated May 31, 1996 between the Company and Joel R. Kimbrough	
+10.4	Employment Agreement dated June 5, 1997 between the Company and Kyle J. Callahan	
+10.5	Employment Agreement dated July 10, 1998 between the Company and Thomas W. Bell Jr.	
*10.6	Accredo Health 1999 Long-Term Incentive Plan	
*10.7	Accredo Health 1999 Employee Stock Purchase Plan	
+10.8	Nova Holdings, Inc. and its Subsidiaries Stock Option and Restricted Purchase Plan, as amended and restated	

+10.9	Note Purchase Agreement dated June 4, 1997 among the Company, Welsh, Carson, Anderson & Stowe VII, L.P. and certain other investors
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+10.14	Stock Purchase Agreement dated May 31, 1996 among Le Bonheur Health Systems, Inc., Southern Health Systems, Inc., the Company and Welsh, Carson, Anderson & Stowe VII, L.P.
+10.15	Modification Agreement dated May 31, 1996 among Le Bonheur Health Systems, Inc., Southern Health Systems, Inc., Nova Holdings, Inc. and Welsh, Carson Anderson & Stowe VII, L.P.
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+10.18	Non-Disclosure and Non-Compete Agreement dated as of June 5, 1997 by and among Horizon Health Systems, Inc., the Company and Dianne R. Martz
+10.19	Grant Agreement dated as of June 5, 1997 by and between Kyle Callahan and the Company
+10.20	Subscription and Restriction Agreement dated as of June 5, 1997 by and between the Company and Kyle Callahan

</TABLE>

<TABLE>
<CAPTION>

EXHIBIT NO.	EXHIBIT INDEX	SEQUENTIALLY NUMBERED PAGE
<C>	<S>	<C>
+10.21	Consulting and Transition Agreement dated as of June 5, 1997 by and between Dianne Martz and Horizon Health Systems, Inc.	
+10.22	Letter Agreement dated as of June 3, 1997 from Andrew M. Paul to Kyle Callahan regarding Mr. Callahan's election to the Board of Directors of the Company	
+10.23	Lease Agreement dated September 1, 1994 between Dianne Martz and Horizon Health Systems, Inc.	
+10.24	Addendum to Lease Agreement dated September 1, 1994 amending the square footage of Premises and annual rental payments	
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+10.30	Second Amended and Restated Distribution Agreement dated July 1, 1994 by and among PharmaThera, Inc., Nova Factor, Inc. and Genzyme Corporation (The Company has requested confidential treatment of certain portions of this Exhibit.)	
+10.31	Amendment No. 1 to Second Amended and Restated Distribution Agreement dated September 30, 1994 by and between PharmaThera, Inc., Nova Factor, Inc. and Genzyme Corporation (The Company has requested confidential treatment of certain portions of this Exhibit.)	
+10.32	Amendment No. 2 to Second Amended and Restated Distribution Agreement dated January 1, 1995 by and between Nova Factor, Inc. and Genzyme Corporation (The Company has requested confidential treatment of certain portions of this Exhibit.)	
+10.33	Distribution and Services Agreement dated November 1, 1995 by and between Biogen, Inc. and Nova Factor, Inc. (The Company has requested confidential treatment of certain portions of this Exhibit.)	
+10.34	Amendment No. 1 to Distribution and Services Agreement dated May 17, 1996 by and between Biogen, Inc. and Nova Factor, Inc. (The Company has requested confidential treatment of certain portions of this Exhibit.)	
+10.35	Addendum and Amendment No. 2 to Distribution and Services Agreement dated May 21, 1997 by and between Biogen, Inc. and Nova Factor, Inc. (The Company has requested confidential treatment of certain portions of this Exhibit.)	
+10.36	Addendum and Amendment No. 3 to Distribution and Services Agreement dated July 1, 1997 by and between Biogen, Inc. and Nova Factor, Inc. (The Company has requested confidential treatment of certain portions of this Exhibit.)	

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EXHIBIT NO.	EXHIBIT INDEX	SEQUENTIALLY NUMBERED PAGE
<C>	<S>	<C>
+10.37	Addendum and Amendment No. 4 to Distribution and Services Agreement dated January 1, 1998 by and between Biogen, Inc. and Nova Factor, Inc. (The Company has requested confidential treatment of certain portions of this Exhibit.)	
+10.38	Loan and Security Agreement dated as of June 5, 1997 among Nova Holdings, Inc. and its Subsidiaries and NationsBank of Tennessee, N.A. and First Tennessee Bank National Association	
+10.39	Swing Line Note dated December 1, 1997 entered into by Nova Holdings, Inc. with NationsBank of Tennessee, N.A.	
+10.40	ISDA Master Agreement dated August 7, 1997 between NationsBank of Tennessee, N.A. and Nova Holdings, Inc.	
+10.41	Texas Health Pharmaceutical Resources Partnership Agreement dated July 1, 1994 (The Company has requested confidential treatment of certain portions of this Exhibit.)	
+10.42	Distribution Business Management and Service Agreement dated July 1, 1994 by and among Southern Health Systems, Inc. and Texas Health Pharmaceutical Resources. (The Company has requested confidential treatment of certain portions of this Exhibit.)	
+10.43	Amendment No. 1 to Distribution Business Management and Service Agreement dated July 1, 1994 by and among Southern Health Systems, Inc. and Texas Health Pharmaceutical Resources (The Company has requested confidential treatment of certain portions of this Exhibit.)	
+10.44	Hemophilia Therapy Pharmacy Management Agreement dated May 9, 1997 by and among Texas Health Pharmaceutical Resources and Children's Medical Center of Dallas (The Company has requested confidential treatment of certain portions of this Exhibit.)	
+10.45	Amendment No. 1 to Hemophilia Therapy Pharmacy Management Agreement dated February 28, 1998 by and among Texas Health Pharmaceutical Resources and Children's Medical Center of Dallas (The Company has requested confidential treatment of certain portions of this Exhibit.)	
+10.46	Incentive Stock Option Agreement of David Stevens dated May 31, 1996	
+10.47	Incentive Stock Option Agreement of Joel R. Kimbrough dated May 31, 1996	
+10.48	Incentive Stock Option Agreement of John R. Grow dated May 31, 1996	
+10.49	Incentive Stock Option Agreement of Kyle Callahan dated September 3, 1997	
+10.50	Non-Qualified Stock Option Agreement of Patrick J. Welsh dated February 9, 1998	
+10.51	Non-Qualified Stock Option Agreement of Ken Melkus dated February 9, 1998	
+10.52	Incentive Stock Option Agreement of Kyle Callahan dated February 9, 1998	
+10.53	Non-Qualified Stock Option Agreement of Andrew M. Paul dated February 9, 1998	
+10.54	Non-Qualified Stock Option Agreement of Kenneth R. Masterson dated April 30, 1998	
+10.55	Incentive Stock Option Agreement of Thomas W. Bell, Jr. dated July 10, 1998	
+10.56	Amendment No. 1 Loan and Security Agreement dated as of August 28, 1998 among Nova Holdings, Inc., a Delaware corporation, and its Subsidiaries and NationsBank of Tennessee, N.A. and First Tennessee Bank National Association	

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EXHIBIT NO.	EXHIBIT INDEX	SEQUENTIALLY NUMBERED PAGE
<C>	<S>	<C>
+10.57	Loan Agreement dated November 24, 1998 between NationsBank, N.A., and Children's Hemophilia Services, a California general partnership composed of Children's Home Care, a California not-for-profit public benefit corporation and Horizon Health Systems, Inc., a Tennessee Corporation	
+10.58	Limited Guaranty dated November 24, 1998 between NationsBank, N.A. and Accredo Health, Incorporated	
+10.59	Promissory Note dated December 24, 1998 between NationsBank, N.A. and Children's Hemophilia Services	
+10.60	Amended and Restated General Partnership Agreement of Children's Home Services	
+10.61	Amended and Restated General Partnership Agreement of Children's Hemophilia Services	
+10.62	Growth Hormone Drug Therapy Business Management, Service and Sales Agreement dated November 10, 1998 between Nova Factor, Inc., a Tennessee corporation, and Children's Home Services, a California general partnership (The Company has requested confidential treatment of certain portions of this Exhibit.)	
+10.63	Hemophilia Therapy Business Management, Services and Sales Agreement dated November 10, 1998 between Horizon Health Systems, Inc., a Tennessee corporation, and Children's Hemophilia Services, a California general partnership (The Company has requested confidential treatment of certain portions of this Exhibit.)	
+10.64	Product Supply and Service Agreement dated November 10, 1998 between Nova Factor, Inc., a Tennessee corporation, and Children's Home Care, a California	

		non-profit benefit corporation (The Company has requested confidential treatment of certain portions of this Exhibit.)
	10.65	Distribution and Services Agreement dated August 28, 1998 between Centocor, Inc. and its affiliates and Nova Factor, Inc. (The Company has requested confidential treatment of certain portions of this Exhibit.)
	10.66	Amendment No. 2 dated March 2, 1999 to Loan and Security Agreement as amended on June 5, 1997 among Accredo Health, Incorporated and its Subsidiaries and NationsBank, N.A. and First Tennessee Bank National Association and NationsBank, N.A. as Agent
	10.67	Amendment No. 1 to Distribution and Service Agreement dated January 11, 1999 by and between Centocor, Inc. and its Affiliates and Nova Factor, Inc.
	*21.1	Subsidiaries of the Company
	23.1	Consent of Alston & Bird LLP (included in Opinion filed as Exhibit 5.1)
	23.2	Consent of Ernst & Young LLP
	+24.1	Power of Attorney (included on the signature page)
	+27.1	Financial Data Schedule

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* To be filed by amendment.

\+ Previously filed.

Exhibit 1.1
GPH Draft April __, 1999

ACCREDO HEALTH, INCORPORATED

3,000,000 Shares

Option to Purchase 450,000 Shares

Common Stock

UNDERWRITING AGREEMENT

March ___, 1999

Hambrecht & Quist LLC
NationsBanc Montgomery Securities LLC
SunTrust Equitable Securities Corporation
Co-Managers
c/o Hambrecht & Quist LLC
One Bush Street
San Francisco, CA 94104

Ladies and Gentlemen:

Accredo Health, Incorporated, a Delaware corporation (herein called the Company), proposes to issue and sell 3,000,000 shares of its authorized but unissued Common Stock, $0.01 par value (herein called the Common Stock) (said shares of Common Stock being herein called the Underwritten Stock). The Company proposes to grant to the Underwriters (as hereinafter defined) an option to purchase up to 450,000 additional shares of Common Stock (herein called the Option Stock and with the Underwritten Stock herein collectively called the Stock). The Common Stock is more fully described in the Registration Statement and the Prospectus hereinafter described.

The Company hereby confirms the agreements made with respect to the purchase of the Stock by the several underwriters, for whom you are acting, named in Schedule I hereto (herein collectively called the Underwriters, which term shall also include any underwriter purchasing Stock pursuant to Section 3(b) hereof). You represent and warrant that you have been authorized by each of the other Underwriters to enter into this Agreement on its behalf and to act for it in the manner herein provided.

1. Registration Statement. The Company has filed with the Securities and Exchange Commission (herein called the Commission) a registration statement on Form S-1 (No. 333-62679), including the related preliminary prospectus, for the registration of the Stock under the Securities Act of 1933, as amended (herein

called the Securities Act). Copies of such registration statement and of each amendment thereto, if any, including the related preliminary prospectus (meeting the requirements of Rule 430A of the rules and regulations of the Commission, except for the omission of share amounts) heretofore filed by the Company with the Commission have been delivered to you.

The term Registration Statement as used in this Agreement shall mean such registration statement, including all exhibits and financial statements and all information omitted therefrom in reliance upon Rule 430A and contained in the Prospectus referred to below, in the form in which it became effective, any registration statement filed pursuant to Rule 462(b) of the rules and regulations of the Commission with respect to the Stock (herein called a Rule 462(b) registration statement), and, in the event of any amendment thereto after the effective date of such registration statement (herein called the Effective Date), the term Registration Statement shall also mean (from and after the effectiveness of such amendment) such registration statement as so amended (including any Rule 462(b) registration statement). The term Prospectus as used in this Agreement shall mean the prospectus relating to the Stock first filed with the Commission pursuant to Rule 424(b) and Rule 430A (or if no such filing is required, as included in the Registration Statement) and, in the event of any supplement or amendment to such prospectus after the Effective Date, shall also mean (from and after the filing with the Commission of such supplement or of the effectiveness of such amendment) such prospectus as so supplemented or amended. The term Preliminary Prospectus as used in this Agreement shall mean each preliminary prospectus included in such registration statement prior to the time it becomes effective.

The Registration Statement, in the form delivered to you, has been declared effective under the Securities Act, and no post-effective amendment to the Registration Statement has been filed as of the date of this Agreement. No stop order suspending the effectiveness of the Registration Statement has been issued and no proceeding for that purpose has been initiated or, to the knowledge of the Company, threatened by the Commission. The Company has caused to be delivered to you copies of the Registration Statement and of each Preliminary Prospectus and has consented to the use of such copies for the purposes permitted by the Securities Act. No order preventing or suspending the use of any Preliminary Prospectus has been issued by the Commission.

2. Representations and Warranties of the Company. The Company hereby represents and warrants to the Underwriters as follows:

(a) Each of the Company and its subsidiaries has been duly incorporated and is validly existing as a corporation in good standing under the laws of the jurisdiction of incorporation, has full corporate power and authority to own or lease its properties and conduct its business as described in the Registration Statement and the Prospectus and as being conducted, and is duly qualified as a foreign corporation and in good standing in all

jurisdictions in which the character of the property owned or leased or the nature of the business transacted by it makes qualification necessary (except where the failure to be so qualified would not have a material adverse effect on the business, properties, financial condition, results of operations or prospects of the Company and its subsidiaries, taken as a whole). The Company does not own or control, directly or indirectly, any corporation, association or other entity other than the subsidiaries listed in Exhibit 21 of the Registration Statement and the joint ventures referred to in the Prospectus.

(b) Each of the Company and its subsidiaries has all necessary consents, approvals, authorizations, orders, registrations, qualifications, licenses and permits of and from all public, regulatory and governmental agencies and bodies to own, lease and operate its properties and conduct its business as now being conducted and as described in the Registration Statement and the Prospectus, and no such consent, approval, authorization, order, registration, qualification, license or permit contains a materially burdensome restriction not disclosed in the Registration Statement and the Prospectus.

(c) Since the respective dates as of which information is given in the Registration Statement and the Prospectus, there has not been any material adverse change in the business, properties, financial condition or results of operations of the Company and its subsidiaries, taken as a whole, whether or not arising from transactions in the ordinary course of business, other than as set forth in the Registration Statement and the Prospectus. Since such dates, neither the Company nor any of its subsidiaries has entered into any material transaction not referred to in the Registration Statement and the Prospectus other than in the ordinary course of business.

(d) The Registration Statement and the Prospectus comply, and on the Closing Date (as hereinafter defined) and any later date on which Option Stock is to be

purchased, the Registration Statement and the Prospectus will comply, in all material respects, with the provisions of the Securities Act and the rules and regulations of the Commission thereunder; on the Effective Date, the Registration Statement did not contain any untrue statement of a material fact and did not omit to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading. On the Effective Date the Prospectus did not and, on the Closing Date and any later date on which Option Stock is to be purchased, the Registration Statement and the Prospectus will not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. None of the representations and warranties in this paragraph (d) shall apply to statements in, or omissions from, the Registration Statement or the Prospectus made in reliance upon and in conformity with information herein or otherwise furnished in writing to the Company by or on behalf of the Underwriters for use

in the Registration Statement or the Prospectus.

(e) The authorized, issued and outstanding capital stock and the outstanding long-term debt of the Company is as described in the Prospectus as of the dates specified therein. Except as described in the Prospectus, there are no outstanding warrants, options or other rights to acquire any capital stock of the Company. All of the issued shares of capital stock of the Company have been duly and validly authorized and issued, are fully paid and non-assessable, and conform to the description thereof contained in the Prospectus. All of the issued shares of capital stock of each subsidiary of the Company have been duly and validly authorized and issued, are fully paid and non-assessable and are owned directly or indirectly by the Company, free and clear of all liens, encumbrances, security interests and claims whatsoever other than as described in the Prospectus. The Stock will be, when issued and sold to the Underwriters as provided herein duly and validly issued, fully paid and nonassessable and conforms to the description thereof in the Prospectus. No further approval or authority of the stockholders or the Board of Directors of the Company is required for the issuance and sale of the Stock by the Company as contemplated herein.

(f) The Company has filed a registration statement pursuant to Section 12(g) of the Securities Exchange Act of 1934, as amended (herein called the Exchange Act), to register the Stock, has filed an application to list the stock on the Nasdaq National Market, and has received notification that such listing has been approved, subject to official notice of issuance and sale.

(g) The Company and each of its subsidiaries are conducting business in compliance with all applicable statutes, ordinances, orders, judgements, decrees, laws, rules and regulations of the jurisdictions in which they are conducting business, including, without limitation, all applicable local, state and federal environmental regulations, except where the failure to be in compliance would not have a material adverse effect on the business, properties, financial condition, results of operations or prospects of the Company and its subsidiaries taken as a whole. Neither the Company nor any of its subsidiaries has provided or provides monetary compensation to the medical community in return for patient referrals in violation of any applicable law, rule or regulation.

(h) The Company and each of its subsidiaries maintain insurance of the types and in the amounts generally deemed adequate for their business, including, but not limited to, professional liability insurance and insurance covering real and personal property owned or leased by the Company or any of its subsidiaries against theft, loss, damage, destruction, acts of vandalism, all of which insurance is in full force and effect.

(i) The Company is not aware that (A) any executive officer, key employee or significant group of employees of the Company or any of its

subsidiaries (the loss of whom would have a material adverse effect on the Company) plans to terminate employment with the Company or any of its subsidiaries or (B) any such executive officer or key employee is subject to any non-competition, non-disclosure, confidentiality, employment, consulting or similar agreement that would be violated by the present or proposed business activities of the Company or any of its subsidiaries.

(j) The issuance and sale of the Stock to be sold by the Company and the compliance by the Company with all of the provisions of this Agreement and the consummation of the transactions herein contemplated will not conflict with or result in a breach or violation of any of the terms or provisions of, or constitute a default under, any indenture, mortgage, deed of trust, loan agreement or other agreement or material instrument to which the Company or any of its subsidiaries is a party or by which the Company or any of its subsidiaries is bound or to which any of the property or assets of the Company or any of its subsidiaries is subject, nor will such action result in any violation of the provisions of the Articles of Incorporation or By-laws, each as amended to date, of the Company or any statute or any order, rule or regulation of any court or governmental agency or body having jurisdiction over the Company or any of its subsidiaries or any of their properties; and no consent, approval, authorization, order, registration or qualification of or with any such court or governmental agency or body is required for the issuance and sale of the Stock or the consummation by the Company of the transactions contemplated by this Agreement, except the registration under the Securities Act of the Stock and such consents, approvals, authorizations, registrations or qualifications as may be required under state securities or blue sky laws in connection with the purchase and distribution of the Stock by the Underwriters.

(k) Neither the Company nor any of its subsidiaries is in violation of its Certificate of Incorporation or By-laws. Neither the Company nor any of its subsidiaries is in default in the performance or observance of any obligation, agreement, covenant or condition contained in any indenture, mortgage, deed of trust, loan agreement, lease or other agreement or instrument to which it is a party or by which it or any of its properties may be bound other than any defaults that singly or in the aggregate will not have a material adverse effect on the financial position, stockholders' equity or results of operations of the Company and its subsidiaries.

(l) The statements set forth in the Prospectus under the caption "Description of Capital Stock", insofar as they purport to constitute a summary of the terms of the Stock, are an accurate description of such terms in all material respects.

(m) Other than as described in the Prospectus, there are no legal or governmental proceedings pending to which the Company or any of its subsidiaries is a party or of which any property of the Company or any of its subsidiaries is the subject which, if determined adversely to the Company or any of its

subsidiaries, would individually or in the aggregate have a material adverse effect on the consolidated financial position, stockholders' equity or results of operations of the Company and its subsidiaries; and, to the best of the Company's knowledge, other than as described in the Prospectus, no such proceedings are threatened or contemplated by governmental authorities or threatened by others.

(n) The Company is not and, after giving effect to the offering and sale of the Stock, will not be an "investment company" or an entity "controlled" by an "investment company," as such terms are defined in the Investment Company Act of 1940, as amended.

(o) Ernst & Young LLP, who have certified certain financial statements of the Company and its subsidiaries, are independent public accountants as required by the Securities Act and the rules and regulations of the Commission thereunder.

(p) Except as disclosed in the Prospectus, the Company and each of its subsidiaries own or possess (or otherwise have rights to the use of) the patents, patent licenses, trademarks, trade names, service marks, service names, copyrights and other intellectual property rights (collectively, the "Intellectual Property") necessary to carry on the Company's business as presently conducted and as proposed in the Prospectus to be conducted, without any conflict with the rights of others, except for such conflicts as do not and will not have a material adverse effect on the financial position, stockholders' equity or results of operations of the Company and each of its subsidiaries, taken as a whole; neither the Company nor its subsidiaries have received any notice of infringement or violation or conflict with (and knows of no such infringement or conflict with) asserted rights of others with respect to any Intellectual Property or any trade secrets, proprietary information, inventions, know-how, processes and procedures owned, used by or licensed to the Company or any such subsidiary which, singly or in the aggregate, if the subject of any unfavorable decision, ruling or finding, would have a material adverse effect on the financial position, stockholders' equity or results of operations of the Company and its subsidiaries, taken as a whole.

(q) The Company and its subsidiaries have endeavored in good faith to structure their relationships with respect to the establishment of joint ventures and management agreements in compliance with applicable governmental laws and regulations relating to (i) licensure of pharmacies, (ii) fee-splitting between health care providers and other entities, (iii) payment for health care services (including without limitation the rules of participation for the Medicare program and comparable provisions of state and federal law pertaining to the Medicaid program), (iv) the federal and state fraud and abuse laws and regulations thereunder (42 U.S.C. ss. 1320a-7b et seq.), and the Stark law and regulations thereunder (42 U.S.C. ss. 1395nn et seq.) collectively, the "Health Care Laws"). To the Company's best knowledge, it is in compliance with all

Health Care Laws. Further, the Company has not been notified or advised by any governmental agent or authority that it is under investigation with respect to any violation or alleged violation of any of the Health Care Laws.

3. Purchase of the Stock by the Underwriters.

(a) On the basis of the representations and warranties and subject to the terms and conditions herein set forth, the Company agrees to issue and sell 3,000,000 shares of the Underwritten Stock to the several Underwriters and each of the Underwriters agrees to purchase from the Company the respective aggregate number of shares of Underwritten Stock set forth opposite its name in Schedule I. The price at which such shares of Underwritten Stock shall be sold by the Company and purchased by the several Underwriters shall be $___ per share. In making this Agreement, each Underwriter is contracting severally and not jointly; except as provided in paragraphs (b) and (c) of this Section 3, the agreement of each Underwriter is to purchase only the respective number of shares of the Underwritten Stock specified in Schedule I.

(b) If for any reason one or more of the Underwriters shall fail or refuse (otherwise than for a reason sufficient to justify the termination of this Agreement under the provisions of Section 8 or 9 hereof) to purchase and pay for the number of shares of the Stock agreed to be purchased by such Underwriter or Underwriters, the Company shall immediately give notice thereof to you, and the non-defaulting Underwriters shall have the right within 24 hours after the receipt by you of such notice to purchase, or procure one or more other Underwriters to purchase, in such proportions as may be agreed upon between you and such purchasing Underwriter or Underwriters and upon the terms herein set forth, all or any part of the shares of the Stock which such defaulting Underwriter or Underwriters agreed to purchase. If the non-defaulting Underwriters fail so to make such arrangements with respect to all such shares and portion, the number of shares of the Stock which each non-defaulting Underwriter is otherwise obligated to purchase under this Agreement shall be automatically increased on a pro rata basis to absorb the remaining shares and portion which the defaulting Underwriter or Underwriters agreed to purchase; provided, however, that the non-defaulting Underwriters shall not be obligated to purchase the shares and portion which the defaulting Underwriter or Underwriters agreed to purchase if the aggregate number of such shares of the Stock exceeds 10% of the total number of shares of the Stock which all Underwriters agreed to purchase hereunder. If the total number of shares of the Stock which the defaulting Underwriter or Underwriters agreed to purchase shall not be purchased or absorbed in accordance with the two preceding sentences, the Company shall have the right, within 24 hours next succeeding the 24-hour period referred to above, to make arrangements with other underwriters or purchasers satisfactory to you for the purchase of such shares and portion on the terms herein set forth. In any such case, either you or the Company shall have the right to postpone the Closing Date determined as provided in Section 5 hereof for not more than seven business days after the date originally fixed as the Closing Date pursuant to said Section 5 in order that any necessary changes in the Registration Statement, the Prospectus or any other documents or arrangements may be made. If neither the non-defaulting Underwriters nor the

Company shall make arrangements within the 24-hour periods

stated above for the purchase of all the shares of the Stock which the defaulting Underwriter or Underwriters agreed to purchase hereunder, this Agreement shall be terminated without further act or deed and without any liability on the part of the Company to any non-defaulting Underwriter and without any liability on the part of any non-defaulting Underwriter to the Company. Nothing in this paragraph (b), and no action taken hereunder, shall relieve any defaulting Underwriter from liability in respect of any default of such Underwriter under this Agreement.

(c) On the basis of the representations, warranties and covenants herein contained, and subject to the terms and conditions herein set forth, the Company grants an option to the several Underwriters to purchase, severally and not jointly, up to 450,000 shares in the aggregate of the Option Stock from the Company at the same price per share as the Underwriters shall pay for the Underwritten Stock. Said option may be exercised only to cover over-allotments in the sale of the Underwritten Stock by the Underwriters and may be exercised in whole or in part at any time (but not more than once) on or before the thirtieth day after the date of this Agreement upon written or telegraphic notice by you to the Company setting forth the aggregate number of shares of the Option Stock as to which the several Underwriters are exercising the option. Delivery of certificates for the shares of Option Stock, and payment therefor, shall be made as provided in Section 5 hereof. The number of shares of the Option Stock to be purchased by each Underwriter shall be the same percentage of the total number of shares of the Option Stock to be purchased by the several Underwriters as such Underwriter is purchasing of the Underwritten Stock, as adjusted by you in such manner as you deem advisable to avoid fractional shares.

4. Offering by Underwriters.

(a) The terms of the initial public offering by the Underwriters of the Stock to be purchased by them shall be as set forth in the Prospectus. The Underwriters may from time to time change the public offering price after the closing of the initial public offering and increase or decrease the concessions and discounts to dealers as they may determine, subject to compliance by the Underwriters with applicable laws, rules and regulations relating thereto.

(b) The information set forth in the last paragraph on the outside front prospectus cover page, the last paragraph on the inside front prospectus cover page and under the caption "Underwriting" in the Registration Statement, any Preliminary Prospectus and the Prospectus relating to the Stock filed by the Company (insofar as such information relates to the Underwriters) constitutes the only information furnished by the Underwriters in writing to the Company for inclusion in the Registration Statement, any Preliminary Prospectus, and the Prospectus, and on behalf of the respective Underwriters you represent and warrant to the Company that the statements made therein are correct.

5. Delivery of and Payment for the Stock.

(a) Delivery of certificates for the shares of the Underwritten Stock and the Option Stock (if the option granted by Section 3(c) hereof shall have been

exercised not later than 7:00 a.m., San Francisco time, on the date two business days preceding the Closing Date), and payment therefor, shall be made at the office of Hambrecht & Quist LLC, One Bush Street, San Francisco, California 94104, at 7:00 a.m., San Francisco time, on the fourth business day after the date of this Agreement, or at such time on such other day, not later than seven full business days after such fourth business day, as shall be agreed upon in writing by the Company and you. The date and hour of such delivery and payment (which may be postponed as provided in Section 3(b) hereof) are herein called the Closing Date.

(b) If the option granted by Section 3(c) hereof shall be exercised after 7:00 a.m., San Francisco time, on the date two business days preceding the Closing Date, delivery of certificates for the shares of Option Stock, and payment therefor, shall be made at the office of Hambrecht & Quist LLC, One Bush Street, San Francisco, California 94104 at 7:00 a.m., San Francisco time, on the third business day after the exercise of such option.

(c) Payment for the Stock purchased from the Company shall be made to the Company or its order by, at the Company's option, wire transfer or one or more certified or official bank check or checks in same day funds. The Company must notify the Underwriters at least three business days preceding the Closing Date and at least one business day preceding the purchase of the Option Stock of its election, and if it elects to receive payment by wire transfer. Such notification shall include the appropriate wire instructions. Such payment shall be made upon delivery of certificates for the Stock (or by electronic delivery through the facilities of the Depository Trust Company) to you for the respective accounts of the several Underwriters against receipt therefor signed by you. If certificates for the Stock are to be delivered, such certificates shall be registered in such name or names and shall be in such denominations as you may request at least one business day before the Closing Date, in the case of Underwritten Stock, and at least one business day prior to the purchase thereof, in the case of the Option Stock. Such certificates will be made available to the Underwriters for inspection, checking and packaging at the offices of Lewco Securities Corporation, 2 Broadway, New York, New York 10004 on the business day prior to the Closing Date or, in the case of the Option Stock, by 3:00 p.m., New York time, on the business day preceding the date of purchase. Time shall be of the essence and delivery at the time and place specified above is a further condition to the obligations of the Underwriters.

It is understood that you, individually and not on behalf of the

Underwriters, may (but shall not be obligated to) make payment to the Company for shares to be purchased by any Underwriter whose check shall not have been received by you on the Closing Date or any later date on which Option Stock is purchased for the account of such Underwriter. Any such payment by you shall not relieve such Underwriter from any of its obligations hereunder.

6. Further Agreements of the Company. The Company covenants and agrees as follows:

(a) The Company will (i) prepare and timely file with the Commission under Rule 424(b) a Prospectus containing information previously omitted at the time of effectiveness of the Registration Statement in reliance on Rule 430A; provided, however, that the Company shall not file such Prospectus under Rule 424(b) or any amendment to the Registration Statement or supplement to the Prospectus of which you shall not previously have been advised and furnished with a copy or to which you shall have reasonably objected in writing or which is not in compliance with the Securities Act or the rules and regulations of the Commission. The Company will provide evidence satisfactory to the Underwriters of the timely filing of the Prospectus filed under Rule 424(b).

(b) The Company will promptly notify each Underwriter in the event of (i) the request by the Commission for amendment of the Registration Statement or for any supplement to the Prospectus or for any additional information, (ii) the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement, (iii) the institution or notice of intended institution of any action or proceeding for that purpose, (iv) the receipt by the Company of any notification with respect to the suspension of the qualification of the Stock for sale in any jurisdiction, or (v) the receipt by the Company of notice of the initiation or threatening of any proceeding for such purpose. The Company will make every reasonable effort to prevent the issuance of such a stop order and, if such an order shall at any time be issued, to obtain the withdrawal thereof at the earliest possible moment.

(c) The Company will (i) on or before the date hereof, and with respect to documents filed after the date hereof, on or before the Closing Date, deliver to you a signed copy of the Registration Statement as originally filed and of each amendment thereto filed prior to the time the Registration Statement becomes effective and, promptly upon the filing thereof, a signed copy of each post-effective amendment, if any, to the Registration Statement (together with, in each case, all exhibits thereto unless previously furnished to you) and will also deliver to you, for distribution to the Underwriters, a sufficient number of additional conformed copies of each of the foregoing (but without exhibits) so that a sufficient number of copies of each may be distributed to each Underwriter, (ii) as promptly as possible deliver to you and send to the several Underwriters, at such office or offices as you may designate, as many copies of the Prospectus as you may reasonably request, and (iii) thereafter from time to time during the period in which a prospectus is required by law to be delivered

by an Underwriter or dealer, likewise send to the Underwriters as many additional copies of the Prospectus and as many copies of any supplement to the Prospectus and of any amended prospectus, filed by the Company with the Commission, as you may reasonably request for the purposes contemplated by the Securities Act.

(d) If at any time during the period in which a prospectus is required by law to be delivered by an Underwriter or dealer, any event relating to or affecting the Company, or of which the Company shall be advised in writing by you, shall occur as a result of which it is necessary, in the opinion of counsel for the Company or of counsel for the Underwriters, to supplement or amend the Prospectus in order to make the Prospectus not misleading in the light of the circumstances existing at the time it is

delivered to a purchaser of the Stock, the Company will forthwith prepare and file with the Commission, at its own expense, a supplement to the Prospectus or an amended prospectus so that the Prospectus as so supplemented or amended will not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in light of the circumstances existing at the time such Prospectus is delivered to such purchaser, not misleading. In addition, upon your written request, the Company will at its own expense prepare and file with the Commission any amendments or supplements to the Registration Statement or Prospectus which, in the opinion of counsel to the Underwriters, may be necessary or advisable in connection with the distribution of the Stock by the Underwriters. The Company authorizes the Underwriters and all dealers to whom any of the Stock may be sold by the several Underwriters to use the Prospectus, as from time to time amended or supplemented, in connection with the sale of the Stock in accordance with the applicable provisions of the Securities Act and the applicable rules and regulations thereunder for such period.

(e) Prior to the filing thereof with the Commission, the Company will submit to you, for your information, a copy of any post-effective amendment to the Registration Statement and any supplement or amendment to the Prospectus proposed to be filed.

(f) The Company will cooperate, when and as requested by you, in the qualification of the Stock for offer and sale under the securities or blue sky laws of such jurisdictions as you may designate and, during the period in which a prospectus is required by law to be delivered by an Underwriter or dealer, in keeping such qualifications in good standing under said securities or blue sky laws; provided, however, that the Company shall not be obligated to file any general consent to service of process or to qualify as a foreign corporation in any jurisdiction in which it is not so qualified. The Company will, from time to time, prepare and file such statements, reports, and other documents as are or may be required to continue such qualifications in effect for so long a period as you may reasonably request for distribution of the Stock.

(g) During a period of five years commencing with the date hereof, the Company will furnish to you, and to each Underwriter who may so request in writing, copies of all periodic and special reports furnished to stockholders of the Company and upon request of all information, documents and reports filed with the Commission.

(h) Not later than the 45th day following the end of the fiscal quarter first occurring after the first anniversary of the Effective Date, the Company will make generally available to its security holders an earnings statement in accordance with Section 11(a) of the Securities Act and Rule 158 thereunder.

(i) Whether or not the transactions contemplated hereunder are consummated or this Agreement is terminated, the Company agrees to pay all costs and expenses incident to the performance of its obligations under this Agreement, including all costs and expenses incident to (i) the preparation, printing and filing with the Commission and the National Association of Securities Dealers, Inc. ("NASD") of the Registration Statement, any Preliminary Prospectus and the Prospectus (other than,

except as provided for in paragraph (j) below and unless expressly provided for elsewhere herein, fees and disbursements of Underwriters' counsel, fees and expenses incurred by the Underwriters in connection with the preparation of the Registration Statement, the Preliminary Prospectus and the Prospectus and any advertising or marketing expenses incurred in connection with the offering by the Underwriters), (ii) the furnishing to the Underwriters of copies of any Preliminary Prospectus, and of the several documents required by paragraph (c) of this Section 6 to be so furnished, (iii) the printing of documents required to be delivered to the Underwriters pursuant hereof, (iv) the preparation, printing and filing of all supplements and amendments to the Prospectus referred to in paragraph (d) of this Section 6 (other than, except as provided for in paragraph (j) below and unless expressly provided for elsewhere herein, fees and disbursements of Underwriters' counsel and fees and expenses incurred by the Underwriters in connection with the preparation of any such supplement or amendment), (v) the furnishing to you and the Underwriters of the reports and information referred to in paragraph (g) of this Section 6 and (vi) the printing and issuance of stock certificates, including the transfer agent's fees.

(j) The Company agrees to reimburse you, for the account of the several Underwriters, for blue sky fees and related disbursements (including, without limitation, filing fees, counsel fees and disbursements) paid by or for the account of the Underwriters or their counsel in qualifying the Stock under state securities or blue sky laws and in the review of the offering by the NASD.

(k) The Company hereby agrees that, without the prior written consent of Hambrecht & Quist LLC on behalf of the Underwriters, the Company will

not, directly or indirectly, offer, sell, pledge, contract to sell (including any short sale), grant any option to purchase or otherwise dispose of any shares of Common Stock or enter into any short sale (whether or not against the box) or any purchase, sale or grant of any right (including without limitation, any put or call option) with respect to any security (other than a broad-based market basket or index) that includes, relates to or derives any significant part of its value from the Common Stock for a period continuing until 180 days after the effective date of the registration statement relating to the initial Public Offering. The foregoing sentence shall not apply to (A) the Stock to be sold to the Underwriters pursuant to this Agreement, (B) shares of Common Stock issued by the Company upon the exercise of options granted or other awards under the stock option plans of the Company (the "Option Plans"), all as described in the Preliminary Prospectus, and (C) options to purchase Common Stock or other awards of (or relating to) Common Stock granted under the Option Plans.

(l) If at any time during the 25-day period after the Registration Statement becomes effective any rumor, publication or event relating to or affecting the Company shall occur as a result of which in your opinion the market price for the Stock has been or is likely to be materially affected (regardless of whether such rumor, publication or event necessitates a supplement to or amendment of the Prospectus), the Company will, after written notice from you advising the Company to the effect set forth above, forthwith prepare, consult with you concerning the substance of, and disseminate

a press release or other public statement, reasonably satisfactory to you, responding to or commenting on such rumor, publication or event.

(m) The Company is familiar with the Investment Company Act of 1940, as amended, and has in the past conducted its affairs, and will in the future conduct its affairs, in such a manner to ensure that the Company was not and will not be an "investment company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940, as amended, and the rules and regulations thereunder.

(n) The Company will apply the net proceeds of the sale of the Stock sold by it substantially in accordance with its statements under the caption "Use of Proceeds" in the Prospectus.

7. Indemnification and Contribution.

(a) The Company agrees to indemnify and hold harmless each Underwriter and each person (including each partner or officer thereof) who controls any Underwriter within the meaning of Section 15 of the Securities Act from and against any and all losses, claims, damages or liabilities, joint or several, to which such indemnified parties or any of them may become subject under the Securities Act, the Exchange Act, or the common law or otherwise, and the Company agrees to reimburse each such Underwriter and controlling person for

any legal or other expenses (including, except as otherwise hereinafter provided, reasonable fees and disbursements of counsel) incurred by the respective indemnified parties in connection with defending against any such losses, claims, damages or liabilities or in connection with any investigation or inquiry of, or other proceeding which may be brought against, the respective indemnified parties, in each case to the extent the same arises out of or is based upon (i) any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement (including the Prospectus constituting a part thereof and any Rule 462(b) registration statement) or any post-effective amendment thereto (including any Rule 462(b) registration statement), or the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, or (ii) any untrue statement or alleged untrue statement of a material fact contained in any Preliminary Prospectus or the Prospectus (as amended or as supplemented if the Company shall have filed with the Commission any amendment thereof or supplement thereto) or the omission or alleged omission to state therein a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided, however, that (1) the indemnity agreements of the Company contained in this paragraph (a) shall not apply to any such losses, claims, damages,

liabilities or expenses if such statement or omission was made in the last paragraph on the outside front prospectus cover page, the last paragraph on the inside front prospectus cover page, or under the caption "Underwriting" in any Preliminary Prospectus or the Registration Statement or the Prospectus or any such amendment thereof or supplement thereto and (2) the indemnity agreement contained in this paragraph (a) with respect to any Preliminary Prospectus shall not inure to the benefit of any Underwriter from whom the person asserting any such losses, claims, damages, liabilities or expenses purchased the Stock which is the subject thereof (or to the benefit of any person controlling such Underwriter) if at or prior to the written confirmation of the sale of such Stock a copy of the Prospectus (or the Prospectus as amended or supplemented) was not sent or delivered to such person and the untrue statement or omission of a material fact contained in such Preliminary Prospectus was corrected in the Prospectus (or the Prospectus as amended or supplemented) unless the failure is the result of noncompliance by the Company with paragraph (c) of Section 6 hereof. The indemnity agreements of the Company contained in this paragraph (a) and the representations and warranties of the Company contained in Section 2 hereof shall remain operative and in full force and effect regardless of any investigation made by or on behalf of any indemnified party and shall survive the delivery of and payment for the Stock.

(b) Each Underwriter severally agrees to indemnify and hold harmless the Company, each of its officers who signs the Registration Statement on his own behalf or pursuant to a power of attorney, each of its directors, each other Underwriter and each person (including each partner or officer thereof) who

controls the Company or any such other Underwriter within the meaning of Section 15 of the Securities Act, from and against any and all losses, claims, damages or liabilities, joint or several, to which such indemnified parties or any of them may become subject under the Securities Act, the Exchange Act, or the common law or otherwise and to reimburse each of them for any legal or other expenses (including, except as otherwise hereinafter provided, reasonable fees and disbursements of counsel) incurred by the respective indemnified parties in connection with defending against any such losses, claims, damages or liabilities or in connection with any investigation or inquiry of, or other proceeding which may be brought against, the respective indemnified parties, in each case to the extent the same arises out of or is based upon (i) any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement (including the Prospectus constituting a part thereof and any Rule 462(b) registration statement) or any post-effective amendment thereto (including any Rule 462(b) registration statement) or the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading or (ii) any untrue statement or alleged untrue statement of a material fact contained in any Preliminary Prospectus or the Prospectus (as amended or as supplemented if the Company shall have filed with the Commission any amendment thereof or supplement thereto) or the omission or alleged omission to state therein a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading, if such statement or omission was made in the last paragraph on the outside front prospectus cover page, the last paragraph on the inside front prospectus cover page, or under the caption "Underwriting" in any Preliminary Prospectus or the Registration Statement or the Prospectus or any such amendment thereof or supplement thereto. The indemnity agreement of each Underwriter contained in this paragraph (b) shall remain operative and in full force and effect regardless of any investigation made by or on behalf of any indemnified party and shall survive the delivery of and payment for the Stock.

(c) Each party indemnified under the provision of paragraphs (a) and (b) of this Section 7 agrees that, upon the service of a summons or other initial legal process upon it in any action or suit instituted against it or upon its receipt of written

notification of the commencement of any investigation or inquiry of, or proceeding against, it in respect of which indemnity may be sought on account of any indemnity agreement contained in such paragraphs, it will promptly give written notice (herein called the Notice) of such service or notification to the party or parties from whom indemnification may be sought hereunder. No indemnification provided for in such paragraphs shall be available to any party who shall fail so to give the Notice if the party to whom such Notice was not given was unaware of the action, suit, investigation, inquiry or proceeding to which the Notice would have related and was prejudiced by the failure to give the Notice, but the omission so to notify such indemnifying party or parties of

any such service or notification shall not relieve such indemnifying party or parties from any liability which it or they may have to the indemnified party for contribution or otherwise than on account of such indemnity agreement. Any indemnifying party shall be entitled at its own expense to participate in the defense of any action, suit or proceeding against, or investigation or inquiry of, an indemnified party. Any indemnifying party shall be entitled, if it so elects within a reasonable time after receipt of the Notice by giving written notice (herein called the Notice of Defense) to the indemnified party, to assume (alone or in conjunction with any other indemnifying party or parties) the entire defense of such action, suit, investigation, inquiry or proceeding, in which event such defense shall be conducted, at the expense of the indemnifying party or parties, by counsel chosen by such indemnifying party or parties and reasonably satisfactory to the indemnified party or parties; provided, however, that (i) if the indemnified party or parties reasonably determine that there may be a conflict between the positions of the indemnifying party or parties and of the indemnified party or parties in conducting the defense of such action, suit, investigation, inquiry or proceeding or that there may be legal defenses available to such indemnified party or parties different from or in addition to those available to the indemnifying party or parties, then counsel for the indemnified party or parties shall be entitled to conduct the defense to the extent reasonably determined by such counsel to be necessary to protect the interests of the indemnified party or parties and (ii) in any event, the indemnified party or parties shall be entitled to have counsel chosen by such indemnified party or parties participate in, but not conduct, the defense. If, within a reasonable time after receipt of the Notice, an indemnifying party gives a Notice of Defense and the counsel chosen by the indemnifying party or parties is reasonably satisfactory to the indemnified party or parties, the indemnifying party or parties will not be liable under paragraphs (a) through (c) of this Section 7 for any legal or other expenses subsequently incurred by the indemnified party or parties in connection with the defense of the action, suit, investigation, inquiry or proceeding, except that (A) the indemnifying party or parties shall bear the legal and other expenses incurred in connection with the conduct of the defense as referred to in clause (i) of the proviso to the preceding sentence and (B) the indemnifying party or parties shall bear such other expenses as it or they have authorized to be incurred by the indemnified party or parties. If, within a reasonable time after receipt of the Notice, no Notice of Defense has been given, the indemnifying party or parties shall be responsible for any legal or other expenses incurred by the indemnified party or parties in connection with the defense of the action, suit, investigation, inquiry or proceeding.

(d) If the indemnification provided for in this Section 7 is unavailable or insufficient to hold harmless an indemnified party under paragraph (a) or (b) of this Section 7, then each indemnifying party, in lieu of indemnifying such indemnified party, shall contribute to the amount paid or payable by such indemnified party as a result of the losses, claims, damages or liabilities referred to in paragraph (a) or (b) of this Section 7 (i) in such

proportion as is appropriate to reflect the relative benefits received by each indemnifying party from the offering of the Stock or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of each indemnifying party in connection with the statements or omissions that resulted in such losses, claims, damages or liabilities, or actions in respect thereof, as well as any other relevant equitable considerations. The relative benefits received by the Company and the Underwriters shall be deemed to be in the same respective proportions as the total net proceeds from the offering of the Stock received by the Company and the total underwriting discount received by the Underwriters, as set forth in the table on the cover page of the Prospectus, bear to the aggregate public offering price of the Stock. Relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by each indemnifying party and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such untrue statement or omission.

The parties agree that it would not be just and equitable if contributions pursuant to this paragraph (d) were to be determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take into account the equitable considerations referred to in the first sentence of this paragraph (d). The amount paid by an indemnified party as a result of the losses, claims, damages or liabilities, or actions in respect thereof, referred to in the first sentence of this paragraph (d) shall be deemed to include, subject to the limitations set forth above, any legal or other expenses reasonably incurred by such indemnified party in connection with investigation, preparing to defend or defending against any action or claim which is the subject of this paragraph (d). Notwithstanding the provisions of this paragraph (d), no Underwriter shall be required to contribute any amount in excess of the underwriting discount applicable to the Stock purchased by such Underwriter. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Underwriters' obligations in this paragraph (d) to contribute are several in proportion to their respective underwriting obligations and not joint.

Each party entitled to contribution agrees that upon the service of a summons or other initial legal process upon it in any action instituted against it in respect of which contribution may be sought, it will promptly give written notice of such service to the party or parties from whom contribution may be sought, but the omission so to notify such party or parties of any such service shall not relieve the party from whom contribution may be sought from any obligation it may have hereunder or otherwise (except as specifically provided in paragraph (c) of this Section 7).

(e) The Company will not, without the prior written consent of each Underwriter, settle or compromise or consent to the entry of any judgment in any pending or threatened claim, action, suit or proceeding in respect of which indemnification may be sought hereunder (whether or not such Underwriter or any person who controls such Underwriter within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act is a party to such claim, action, suit or proceeding) unless such settlement, compromise or consent includes an unconditional release of such Underwriter and each such controlling person from all liability arising out of such claim, action, suit or proceeding.

8. Termination. This Agreement may be terminated by you at any time prior to the Closing Date by giving written notice to the Company if after the date of this Agreement trading in the Common Stock shall have been suspended, or if there shall have occurred (i) the engagement in hostilities or an escalation of major hostilities by the United States or the declaration of war or a national emergency by the United States on or after the date hereof, (ii) any outbreak of hostilities or other national or international calamity or crisis or change in economic or political conditions if the effect of such outbreak, calamity, crisis or change in economic or political conditions in the financial markets of the United States would, in the Underwriters' reasonable judgment, make the offering or delivery of the Stock impracticable, (iii) suspension of trading in securities generally or a material adverse decline in value of securities generally on the New York Stock Exchange, the American Stock Exchange or the Nasdaq National Market, or limitations on prices (other than limitations on hours or numbers of days of trading) for securities on either such exchange or system, (iv) the enactment, publication, decree or other promulgation of any federal or state statute, regulation, rule or order of, or commencement of any proceeding or investigation by, any court, legislative body, agency or other governmental authority which in the Underwriters' reasonable opinion materially and adversely affects or will materially or adversely affect the business or operations of the Company, (v) declaration of a banking moratorium by either federal or New York State authorities or (vi) the taking of any action by any federal, state or local government or agency in respect of its monetary or fiscal affairs which in the Underwriters' reasonable opinion has a material adverse effect on the securities markets in the United States. If this Agreement shall be terminated pursuant to this Section 8, there shall be no liability of the Company to the Underwriters and no liability of the Underwriters to the Company; provided, however, that in the event of any such termination the Company agrees to indemnify and hold harmless the Underwriters from all costs or expenses incident to the performance of the obligations of the Company under this Agreement, to the extent provided for in paragraphs (i) and (j) of Section 6 hereof.

9. Conditions of Underwriters' Obligations. The obligations of the several Underwriters to purchase and pay for the Stock shall be subject to the accuracy of the representations and warranties on the part of the Company and the performance by the Company of all its obligations to be performed hereunder at or prior to the Closing Date and, solely with respect to the Option Stock, on any later date on which Option Stock is to be purchased, as the case may be, and to the following further conditions:

(a) The Registration Statement shall have become effective; and no stop order suspending the effectiveness thereof shall have been issued and no proceedings therefor shall be pending or threatened by the Commission.

(b) The legality and sufficiency of the sale of the Stock hereunder and the validity and form of the certificates representing the Stock, all corporate proceedings and other legal matters incident to the foregoing, and the form of the Registration Statement and of the Prospectus (except as to the financial statements contained therein), shall have been approved at or prior to the Closing Date by Goodwin, Procter & Hoar LLP, counsel for the Underwriters, provided that such approval is not unreasonably withheld.

(c) You shall have received from Alston & Bird LLP, counsel for the Company, an opinion, addressed to the Underwriters and dated the Closing Date, covering the matters set forth in Annex A hereto, and if Option Stock is purchased at any date after the Closing Date, additional opinions from each such counsel, addressed to the Underwriters and dated such later date, confirming that the statements expressed as of the Closing Date in such opinions remain valid as of such later date.

(d) You shall be satisfied that (i) as of the Effective Date, the statements made in the Registration Statement and the Prospectus were true and correct and neither the Registration Statement nor the Prospectus omitted to state any material fact required to be stated therein or necessary in order to make the statements therein, respectively, not misleading, (ii) since the Effective Date, no event has occurred which should have been set forth in a supplement or amendment to the Prospectus which has not been set forth in such a supplement or amendment filed with the Commission, (iii) since the respective dates as of which information is given in the Registration Statement in the form in which it originally became effective and the Prospectus contained therein, there has not been any material adverse change or any development involving a prospective material adverse change in or affecting the business, properties, financial condition or results of operations of the Company and its subsidiaries, taken as a whole, whether or not arising from transactions in the ordinary course of business, and, since such dates, except in the ordinary course of business, neither the Company nor any of its subsidiaries has entered into any material transaction not referred to in the Registration Statement in the form in which it originally became effective and the Prospectus contained therein, (iv) neither the Company nor any of its subsidiaries has any material contingent obligations which are not disclosed in the Registration Statement and the Prospectus, (v) there are not any pending or known threatened legal proceedings to which the Company or any of its subsidiaries is a party or of which property of the Company or any of its subsidiaries is the subject which are required to be disclosed in the Registration Statement and the Prospectus and which are not disclosed as required, (vi) there are not any franchises, contracts, leases or other documents which are required to be filed as exhibits

to the Registration Statement which have not been filed as required, (vii) the representations and warranties of the Company herein are true and correct in all material respects as of the Closing Date and on any later date on which Option Stock is to be purchased, as the case may be, and (viii) there has not been any material change in the market for securities in general or in political, financial or economic conditions and which renders it

impracticable in your reasonable judgment to make a public offering of the Stock, or a material adverse change in market levels for securities in general (or those of companies in particular) or financial or economic conditions which render it inadvisable to proceed.

(e) You shall have received on the Closing Date and on any later date on which Option Stock is purchased a certificate, dated the Closing Date or such later date, as the case may be, and signed by the President and the Chief Financial Officer of the Company, in their capacities as such officers, stating that the respective signers of said certificate have carefully examined the Registration Statement in the form in which it originally became effective and the Prospectus contained therein and any supplements or amendments thereto, and that the statements included in clauses (i) through (vii) of paragraph (d) of this Section 9 are true and correct.

(f) You shall have received from Ernst & Young LLP, a letter or letters, addressed to the Underwriters and dated the Closing Date and any later date on which Option Stock is purchased, confirming that they are independent public accountants with respect to the Company within the meaning of the Securities Act and the applicable published rules and regulations thereunder and, based upon the procedures described in their letter delivered to you concurrently with the execution of this Agreement (herein called the Original Letter), but carried out to a date not more than three business days prior to the Closing Date or such later date on which Option Stock is purchased, (i) confirming, to the extent true, that the statements and conclusions set forth in the Original Letter are accurate as of the Closing Date or such later date, as the case may be, and (ii) setting forth any revisions and additions to the statements and conclusions set forth in the Original Letter which are necessary to reflect any changes in the facts described in the Original Letter since the date of the Original Letter or to reflect the availability of more recent financial statements, data or information. The letters shall not disclose any change, or any development involving a prospective change, in or affecting the business or properties of the Company and its subsidiaries, taken as a whole, which, in your sole judgment, makes it impractical or inadvisable to proceed with the public offering of the Stock or the purchase of the Option Stock as contemplated by the Prospectus.

(g) You shall have received from Ernst & Young a letter stating that their review of the Company's system of internal accounting controls, to the extent they deemed necessary in establishing the scope of their examination of

the Company's financial statements as at June 30, 1998, did not disclose any weakness in internal controls that they considered to be material weaknesses.

(h) Prior to the Closing Date, the Stock to be issued and sold by the Company shall have been duly authorized for listing by the Nasdaq National Market upon official notice of issuance.

(i) On or prior to the Closing Date, you shall have received from all stockholders agreements, in form reasonably satisfactory to Hambrecht & Quist LLC, stating that without the prior written consent of Hambrecht & Quist LLC on behalf of the Underwriters, such person or entity will not, directly or indirectly offer, sell, pledge,

contract to sell (including any short sale), grant any option to purchase or otherwise dispose of any shares of Common Stock (including, without limitation, shares of Common Stock which may be deemed to be beneficially owned by the parties to such agreements in accordance with the rules and regulations of the Securities and Exchange Commission and shares of Common Stock which may be issued upon exercise of a stock option or warrant or conversion of any convertible securities) or enter into any short sale (whether or not against the box) or any purchase, sale or grant of any right (including without limitation, any put or call option) with respect to any security (other than a broad-based market basket or index) that includes, relates to or derives any significant part of its value from the Common Stock for a period continuing until 180 days after the effective date of the registration statement relating to the initial public offering.

The lock-up agreement described above shall not apply to transfers (i) in connection with the initial public offering of the Company's Stock to the extent that the stockholder is a selling stockholder in such offering, (ii) by gift, will or intestacy, (iii) in the event the stockholder is an individual, to his or her immediate family or to a trust the beneficiaries of which are exclusively the stockholder and/or a member or members of his or her immediate family, (iv) as a distribution to partners, members or shareholders of the stockholder, or (v) to an affiliate of the stockholder; provided, however, that in the case of transfers under clauses (ii), (iii), (iv) and (v), it shall be a condition to the transfer that the transferee execute an agreement stating that the transferee is receiving and holding the Stock subject to the provisions of the lock-up agreement, and there shall be no further transfer of such Stock except in accordance with the lock-up agreement.

All the agreements, opinions, certificates and letters mentioned above or elsewhere in this Agreement shall be deemed to be in compliance with the provisions hereof only if you and Goodwin, Procter & Hoar LLP, counsel for the Underwriters, shall be satisfied that they comply in form and scope.

In case any of the conditions specified in this Section 9 shall not be

fulfilled, this Agreement may be terminated by you by giving notice to the Company. Any such termination shall be without liability of the Company to the Underwriters and without liability of the Underwriters to the Company; provided, however, that (i) in the event of such termination, the Company agrees to indemnify and hold harmless the Underwriters from all costs or expenses incident to the performance of the obligations of the Company under this Agreement to the extent provided for in paragraphs (i) and (j) of Section 6 hereof, and (ii) if this Agreement is terminated by you because of any refusal, inability or failure on the part of the Company to perform any agreement of the Company herein, to fulfill any of the conditions herein, or to comply with any provision hereof that is applicable to the Company, other than by reason of a default by any of the Underwriters, the Company will reimburse the Underwriters severally upon demand for all out-of-pocket expenses (including reasonable fees and disbursements of counsel) that shall have been incurred by them in connection with the transactions contemplated hereby.

10. Conditions of the Obligation of the Company. The obligation of the Company to deliver the Stock shall be subject to the conditions that (a) the Registration

Statement shall have become effective and (b) no stop order suspending the effectiveness thereof shall be in effect and no proceedings therefor shall be pending or threatened by the Commission.

In case either of the conditions specified in this Section 10 shall not be fulfilled, this Agreement may be terminated by the Company by giving notice to you. Any such termination shall be without liability of the Company to the Underwriters and without liability of the Underwriters to the Company; provided, however, that in the event of any such termination the Company agrees to indemnify and hold harmless the Underwriters from all costs or expenses incident to the performance of the obligations of the Company under this Agreement to the extent provided for in paragraphs (i) and (j) of Section 6 hereof.

11. Reimbursement of Certain Expenses. In addition to its other obligations under Section 7 of this Agreement, the Company hereby agrees to reimburse on a quarterly basis the Underwriters for all reasonable legal and other expenses incurred in connection with investigating or defending any claim, action, investigation, inquiry or other proceeding arising out of or based upon any statement or omission, or any alleged statement or omission, described in paragraph (a) of Section 7 of this Agreement, notwithstanding the absence of a judicial determination as to the propriety and enforceability of the obligations under this Section 11 and the possibility that such payments might later be held to be improper; provided, however, that (i) to the extent any such payment is ultimately held to be improper, the persons receiving such payments shall promptly refund them and (ii) such persons shall provide to the Company, upon request, reasonable assurances of their ability to effect any refund, when and if due.

12. Persons Entitled to Benefit of Agreement. This Agreement shall inure to the benefit of the Company and the several Underwriters and, with respect to the provisions of Section 7 hereof, the several parties (in addition to the Company and the several Underwriters) indemnified under the provisions of said Section 7, and their respective personal representatives, successors and assigns. Nothing in this Agreement is intended or shall be construed to give to any other person, firm or corporation any legal or equitable remedy or claim under or in respect of this Agreement or any provision herein contained. The term "successors and assigns" as herein used shall not include any purchaser, as such purchaser, of any of the Stock from any of the several Underwriters.

13. Notices. Except as otherwise provided herein, all communications hereunder shall be in writing and, if to the Underwriters, shall be mailed, sent via overnight courier, sent by facsimile or delivered to Hambrecht & Quist LLC, One Bush Street, San Francisco, California 94104; and if to the Company, shall be mailed, sent via overnight courier, sent by facsimile or delivered to it at its office, 1640 Century Center Parkway, Suite 101, Memphis, TN 38134, Attention: David D. Stevens. Any notice sent in accordance with the provisions of this Section 13 shall be deemed to have been received on the date which is: (i) three (3) business days after the date of proper posting, if sent by certified U.S. mail, postage prepaid, return receipt requested; or (ii) the date on which sent, if sent by facsimile transmission, with confirmation and with the original to

be sent by certified U.S. mail; or (iii) the next business day if sent by overnight delivery by a national courier service.

14. Miscellaneous. The reimbursement, indemnification and contribution agreements contained in this Agreement and the representations, warranties and covenants in this Agreement shall remain in full force and effect regardless of (a) any termination of this Agreement, (b) any investigation made by or on behalf of any Underwriter or controlling person thereof, or by or on behalf of the Company or their respective directors or officers, and (c) delivery and payment for the Stock under this Agreement; provided, however, that if this Agreement is terminated prior to the Closing Date, the provisions of paragraph (k) of Section 6 hereof shall be of no further force or effect.

This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

This Agreement shall be governed by, and construed in accordance with, the laws of the State of California.

Please sign and return to the Company the enclosed duplicates of this letter, whereupon this letter will become a binding agreement between the

Company and the several Underwriters in accordance with its terms.

Very truly yours,

ACCREDO HEALTH, INCORPORATED

By

David D. Stevens
Chief Executive Officer

The foregoing Agreement is hereby confirmed
and accepted as of the date first above written.

HAMBRECHT & QUIST LLC
NATIONSBANC MONTGOMERY SECURITIES LLC
SUNTRUST EQUITABLE SECURITIES LLC
By Hambrecht & Quist LLC

By:

Managing Director

Acting on behalf of the several Underwriters,
including themselves, named in Schedule I hereto.

SCHEDULE I

UNDERWRITERS

Underwriters	Number of Shares to be Purchased
Hambrecht & Quist LLC	
NationsBank Montgomery Securities LLC	
SunTrust Equitable Securities Corporation	
Total	

ANNEX A

Matters to be Covered in the Opinion of
Alston & Bird LLP Counsel for the Company

(i) The Company has been duly incorporated and is validly existing as a corporation and is in good standing under the laws of the

State of Delaware, and is qualified to transact business as a foreign corporation in the State[s] of _____. The Company has the corporate power and authority to own or lease its properties and conduct its business as described in the Registration Statement. Each of the Company's corporate subsidiaries has been duly incorporated and is validly existing as a corporation and is in good standing under the laws of the State of Tennessee, and is qualified to transact business as a foreign corporation in the State[s] of _____. Each of the Company an its subsidiaries is duly qualified to do business in each jurisdiction in which it owns or leases property or in which the conduct of its business requires such qualification (as such properties and business are described in the Registration Statement.) Each of the Company's corporate subsidiaries has the corporate power and the corporate authority to own or lease its properties and conduct its business as described in the Registration Statement; all the issued and outstanding capital stock of each of the subsidiaries of the Company has been duly authorized and validly issued and is fully paid and nonassessable, and except as disclosed in the Prospectus, is owned by the Company free and clear of all liens, encumbrances and security interests, and to such counsel's knowledge, no options, warrants or other rights to purchase, agreements or other obligations to

issue or other rights to convert any obligations into shares of capital stock or ownership interests in such subsidiaries are outstanding.

(ii) the authorized capital stock of the Company consists of ___ shares of Preferred Stock, none of which there are outstanding, and _____ shares of Common Stock, $____ par value, of which there are outstanding _____ shares (including the Underwritten Stock plus the number of shares of Option Stock, if any, issued on the date hereof); such authorized capital stock has been duly authorized; all of the outstanding shares of such capital stock (including the Underwritten Stock and the shares of Option Stock issued, if any) have been validly issued and are fully paid and nonassessable; and no preemptive rights of, or rights of refusal in favor of, stockholders exist with respect to the Stock, or the issue and sale thereof, pursuant to the Certificate of Incorporation or Bylaws of the Company and, to the knowledge of such counsel, there are no contractual preemptive rights, rights of first refusal or rights of co-sale that have not been waived with respect to the issue and sale of the Stock;

(iii) the descriptions of statutes and regulations under the captions "Risk Factors--Government Regulation" and "Business--Government Regulation" of the Registration Statement accurately summarize and fairly present the matters therein described.

(iv) the Registration Statement and the Prospectus (except as to the financial statements and schedules and other financial and statistical data contained therein, as to which such counsel need express no opinion) comply as to form in all material respects with the requirements of the Securities Act and the rules and regulations of the Commission thereunder;

(v) the information required to be set forth in the Registration Statement in answer to Items 9, 10 (insofar as it relates to such counsel) and 11(c) of Form S-1 is to such counsel's knowledge accurately and adequately set forth therein in all material respects or no response is required with respect to such Items, and, the description of the Company's stock option plan and the options granted and which may be granted thereunder set forth in the Prospectus accurately presents the information required to be shown with respect to said plan and options to the extent required by the Securities Act and the rules and regulations of the Commission thereunder;

(vi) such counsel do not know of any franchises, contracts, leases, documents or legal or governmental proceedings, pending or threatened, which in the opinion of such counsel are of a character required to be described in the Registration Statement or the Prospectus or to be filed as exhibits to the Registration Statement, which are not described and filed as required;

(vii) the Underwriting Agreement has been duly authorized, executed and delivered by the Company;

(viii) the issuance and sale by the Company of the shares of Stock sold by the Company and the consummation of the transactions as contemplated by the Underwriting Agreement do not conflict with, or result in a breach of, or a default under the Certificate of Incorporation or Bylaws of the Company or any of its subsidiaries or any agreement or instrument known to such counsel to which the Company or any of its subsidiaries is a party or any applicable law or regulation, or insofar as is known to such counsel, any order, writ, injunction or decree to which the Company or its subsidiaries are subject;

(ix) all holders of securities of the Company having rights to the registration of shares of Common Stock, or other securities, because of the filing of the Registration Statement by the Company have waived such rights or such rights have expired by reason of lapse of time following notification of the Company's intent to file the Registration Statement;

(x) no consent, approval, authorization or order of any court or governmental agency or body is required for the issuance or sale of the

Stock or the consummation of the transactions contemplated in the Underwriting Agreement, except such as have been obtained under the Securities Act and such as may be required under state securities or blue sky laws in connection with the purchase and distribution of the Stock by the Underwriters;

(xi) neither the Company nor any of its subsidiaries is an "investment company" or an entity "controlled" by an "investment company," as such terms are defined in the Investment Company Act of 1940.

Counsel has participated in conferences with officials and other representatives of the Company, the Representatives, Underwriters' Counsel and the independent certified public accountants of the Company, at which such conferences the contents of the Registration Statement and Prospectus and related matters were discussed. Based on our participations in these conferences, our review of corporate documents furnished to us by the Company, our understanding of applicable law and the experience we have gained in our practice thereunder, nothing has come to the attention of such counsel which leads us to believe that the Registration Statement (except as to the financial statements and schedules and other financial and statistical data contained therein, as to which such counsel need not express any opinion or belief) at the Effective Date

contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading, or that the Prospectus (except as to the financial statements and schedules and other financial and statistical data contained therein, as to which such counsel need not express any opinion or belief) as of its date or at the Closing Date (or any later date on which the Option Stock is purchased), contained or contains any untrue statement of a material fact or omitted or omits to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

Counsel rendering the foregoing opinion may rely as to questions of law not involving the laws of the United States or the provisions of the Delaware General Corporation Law, upon opinions of local counsel satisfactory in form and scope to counsel for the Underwriters, and as to questions of fact, upon representations or certificates of officers of the Company and of government officials. Copies of any opinions so relied upon shall be delivered to the Representatives and to counsel for the Underwriters and the foregoing opinion shall also state that counsel knows of no reason the Underwriters are not entitled to rely upon the opinions of such local counsel.

COMMON STOCK
------NUMBER------

COMMON STOCK
------SHARES------

ACCREDO
HEALTH, INCORPORATED

INCORPORATED UNDER
THE LAWS OF THE
STATE OF DELAWARE

SEE REVERSE FOR CERTAIN
DEFINITIONS AND A
STATEMENT AS TO THE RIGHTS,
PREFERENCES, PRIVILEGES AND
RESTRICTIOINS OF SHARES

CUSIP 00437V 10 4

THIS CERTIFIES THAT

IS THE OWNER OF

FULLY PAID AND NON-ASSESSABLE SHARES OF COMMON STOCK, $.01 PAR VALUE, OF

ACCREDO HEALTH, INCORPORATED

transferable only on the books of the Corporation by the registered holder hereof in person or by duly authorized attorney upon surrender of this certificate properly endorsed. This certificate is not valid unless countersigned by the Transfer Agent and registered by the Registrar.

In Witness Whereof, the Corporation has caused this certificate to be signed in facsimile by its authorized officers and its facsimile seal to be hereunto affixed.

Dated:

[SEAL]

/s/ Thomas W. Bell, Jr.
SECRETARY

/s/ David D. Stevens
CHAIRMAN OF THE BOARD

COUNTERSIGNED AND REGISTERED:
AMERICAN STOCK TRANSFER & TRUST COMPANY
(NEW YORK, NEW YORK) TRANSFER AGENT
AND REGISTRAR

BY:
AUTHORIZED SIGNATURE

ACCREDO HEALTH, INCORPORATED

A statement of the rights, preferences, privileges and restrictions granted to or imposed upon the respective classes or series of shares and upon the holders thereof as established, from time to time, by the Articles of Incorporation of the Corporation and by any certificate of determination, and

the number of shares constituting each class and series and the designations thereof, may be obtained by the holder hereof upon written request and without charge from the Secretary of the Corporation at its corporate headquarters or the Registrar named on the face of this certificate.

The following abbreviations when used in the inscription on the face of this certificate, shall be construed as though they were written out in full according to applicable laws or regulations:

<TABLE>
<S> <C>

TEN COM- as tenants in common	UNIF GIFT MIN ACT-_____Custodian_____
TEN ENT- as tenants by the entireties	(Cust) (Minor)
JT TEN- as joint tenants with right of survivorship and not as tenants in common	under Uniform Gifts to Minors Act _____ (State)

</TABLE>

Additional abbreviations may also be used though not in the above list.

For Value received, _____hereby sell, assign and transfer unto

PLEASE INSERT SOCIAL SECURITY OR OTHER
IDENTIFYING NUMBER OF ASSIGNEE

_____

_____

_____

PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS OF ASSIGNEE

_____

_____

_____

_____Shares

of the common stock represented by the within certificate, and do hereby

irrevocably constitute and appoint_____

_____Attorney to

transfer the said stock on the books of the within-named Corporation with full power of substitution in the premises.

Dated, _____ X _____

X _____

NOTICE: THE SIGNATURE(S) TO THIS ASSIGNMENT MUST CORRESPOND WITH THE NAME(S) AS WRITTEN UPON THE FACE OF THE CERTIFICATE, IN EVERY PARTICULAR, WITHOUT ALTERATION OR ENLARGEMENT, OR ANY CHANGE WHATSOEVER.

SIGNATURE GUARANTEED: _____

THE SIGNATURE(S) SHOULD BE GUARANTEED BY AN ELIGIBLE GUARANTOR INSTITUTION (BANKS, STOCKBROKERS, SAVINGS AND LOAN ASSOCIATIONS AND CREDIT UNIONS WITH MEMBERSHIP IN AN APPROVED SIGNATURE GUARANTEE MEDALLION PROGRAM),

PURSUANT TO S.E.C. RULE 17Ad-15.

KEEP THIS CERTIFICATE IN A SAFE PLACE, IF IT IS LOST, STOLEN, OR DESTROYED, THE CORPORATION MAY REQUIRE A BOND OF INDEMNITY AS A CONDITION TO THE ISSUANCE OF A REPLACEMENT CERTIFICATE.

EXHIBIT 5.1

ALSTON & BIRD LLP

One Atlantic Center
1201 West Peachtree Street
Atlanta, Georgia 30309-3424

404-881-7000
Fax: 404-881-7777

March 26, 1999

Accredo Health, Incorporated
1640 Century Center Parkway, Suite 101
Memphis, TN 38134

Re: Form S-1 Registration Statement
Accredo Health, Incorporated

Ladies and Gentlemen:

We have acted as counsel for Accredo Health, Incorporated, a Delaware corporation (the "Corporation"), in connection with the above referenced Registration Statement on Form S-1 (the "Registration Statement") being filed by the Corporation with the Securities and Exchange Commission (the "Commission") under the Securities Act of 1933, as amended, and covering 3,000,00 shares of the Corporation's common stock, $0.01 par value ("Common Stock"). This Opinion Letter is rendered pursuant to Item 16 of Form S-1 and Item 601(b)(5) of Regulation S-K. Capitalized terms used in this Opinion Letter and not otherwise defined herein shall have the meanings assigned to such terms in the Registration Statement.

In the capacity described above, we have considered such matters of law and of fact, including the examination of originals or copies, certified or otherwise identified to our satisfaction, of such records and documents of the Corporation, certificates of public officials and such other documents as we have deemed appropriate as a basis for the opinions hereinafter set forth. The opinions set forth herein are limited to the laws of the State of Delaware, in reliance solely on published general compilations thereof as of the date hereof.

<TABLE>
<S> <C> <C>
1211 East Morehead Street 3605 Glenwood Avenue, Suite 310 601 Pennsylvania Avenue, N.W.
P.O. Drawer 34009 P.O. Drawer 31107 North Building, 11th Floor
Charlotte, NC 28234-4009 Raleigh, NC 27622-1107 Washington, DC 20004-2601
704-331-6000 919-420-2200 202-756-3300
Fax: 704-334-2014 Fax: 919-420-2260 Fax: 202-756-3333
</TABLE>

Based upon the foregoing, it is our opinion that when issued the 3,000,000 shares of Common Stock covered by the Registration Statement will be legally and validly issued, fully paid and nonassessable.

This Opinion Letter is provided to you for your benefit and for the benefit of the Commission, in each case, solely with regard to the Registration Statement, may be relied upon by you and the Commission only in connection with the Registration Statement, and may not be relied upon by any other person or for any other purpose without our prior written consent.

We hereby consent to the filing of this opinion as an exhibit to the Registration Statement and further consent to the use of our name wherever appearing in the Registration Statement.

Sincerely,

ALSTON & BIRD

By: /s/ Steven L. Pottle

Steven L. Pottle, Esq.

Exhibit 10.65

Certain portions of this Exhibit have been omitted based upon a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933. The omitted portions have been filed separately with the Securities and Exchange Commission.

DISTRIBUTION AND SERVICES AGREEMENT

This Distribution and Services Agreement is entered into as of this 28th day of August, 1998 (the "Effective Date"), by and between Centocor, Inc., and its Affiliates, with principal offices located at 200 Great Valley Parkway, Malvern, Pennsylvania 19355 ("Centocor"), and Nova Factor, Inc., with principal offices located at 1620 Century Center Parkway, Suite 109, Memphis, Tennessee 38134 ("Nova Factor").

RECITALS

WHEREAS, Centocor has developed an anti-TNF chimeric monoclonal antibody product known as Remicade(TM) (the "Product") for use as an agent in the treatment of (a) inflammatory bowel diseases, including Crohn's Disease (collectively referred to as "Inflammatory Bowel Disease"); (b) rheumatoid arthritis, and (c) new indication(s) to be defined.

WHEREAS, as of the Effective Date, the Product has received commercial marketing approval in the United States of America for certain indications of Crohn's Disease from the United States of America Food and Drug Administration;

WHEREAS, Centocor is in the process of establishing a distribution network for the sale of the Product in the United States of America;

WHEREAS, as a part of the distribution network, Centocor intends to appoint a preferred retail distributor to provide retail assignment of benefits services to users of the Product;

WHEREAS, Nova Factor, as both a retail and wholesale pharmacy, has the facilities and expertise to distribute the Product to out-patient customers, to provide reimbursement assistance and other customer services to its customers and to provide data reporting and other services to Centocor;

WHEREAS, Centocor is willing to appoint Nova Factor as a preferred retail distributor of the Product on the terms and conditions set forth in this Agreement, and Nova Factor is willing to accept such appointment.

NOW, THEREFORE, in consideration of the promises and mutual covenants herein contained, the parties hereby agree as follows:

1. DEFINITIONS

For purposes of this Agreement the following terms shall have the following meanings:

1.1 "Adverse Event" shall have the meaning set forth in 21 CFR 600.80.

1.2 "Affiliates" shall mean, with respect to a given party, any corporation, firm, partnership or other entity which directly or indirectly controls or is controlled by or is under common control with such party. For purposes of this Section 1.2, "control" shall mean direct or indirect ownership of fifty percent (50%) or greater of the equity having the power to vote on or direct the affairs of the entity.

1.3 "Assignment of Benefits" ("AOB") shall mean the assignment by the Outpatient Customer of Insurance Benefits for the Product to Nova Factor as payment for the Product.

1.4 "AOB Services" shall have the meaning ascribed to such term in Section 4.6 of this Agreement.

1.5 "Average Wholesale Price" ("AWP") for purposes of this Agreement shall mean the estimated wholesale price submitted by Centocor for the Product based on convention employed by First Data Bank, Blue Book, Red Book, and Medispan. *

1.6 "Bad Debt" shall mean Insurance Benefits assigned to and accepted by Nova Factor as payment for Product, including unpaid Outpatient Customer co-pay amounts, which are uncollectible determined on an accrual basis as provided by Generally Accepted Accounting Principles ("GAAP").

1.7 "Contractual Allowance" shall mean any discount off Centocor AWP, or rebate provided by Nova Factor to a third party health insurer, government program or other third party benefits payor determined on an accrual basis as provided by GAAP.

1.8 "Database" shall have the meaning set forth in Section 7.1.

1.9 "Documedics" shall mean Documedics, 185 Berry Street, Suite 4805, San Francisco, California 94017.

*Omitted information is the subject of a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933 and has been filed separately with the Securities and Exchange Commission.

1.10 "Facility" shall mean Nova Factor's facility located at 1620 Century Center Parkway, Suite 109, Memphis Tennessee 38134.

1.11 "FDA" shall mean the United States of America Food and Drug Administration.

1.12 "Infusion Provider" shall mean a Patient's treating physician or the hospital outpatient clinic or infusion center, etc. at which a Patient is administered Product.

1.13 "Insurance Benefit" shall mean the amounts paid by a Patient's third party health insurer, government program or other third party payor for Product.

1.14 "LHSI" shall mean Livingston Healthcare Services, Inc., 220 Lake Drive, Newark, Delaware and its Affiliates, where Product shall be warehoused on Centocor's behalf.

1.15 "Outpatient Customers" shall mean (a) out-patient infusion Patients or the Patient's Infusion Provider in the Territory who are referred to Nova Factor by their treating physicians or (b) the Patient's Infusion Provider (hospital, out-patient clinic, infusion center, etc.) in the Territory; and the Patient, physician or Infusion Provider has elected to assign the Product Insurance Benefit to a third party as payment for the Product.

1.16 "Patient" shall mean an individual who is to be administered the Product.

1.17 "Product" shall have the meaning ascribed to such term in the first recital of this Agreement.

1.18 "Purchase Price" shall have the meaning ascribed to such term in Section 8.1 of this Agreement.

1.19 "Retail" shall mean the provision of Product by a Centocor distributor for the Product on a named Patient basis to an Outpatient Customer, and the Insurance Benefit for such Product is assigned to the Centocor distributor as payment for the Product.

1.20 "SOP" shall mean the written standard operating procedures prepared by Centocor and agreed to by Nova Factor, as modified from time to time by the mutual agreement of the parties, which will be used by Nova Factor to provide certain services under this Agreement. In the event of a conflict between the SOPs and this Agreement, the terms of this Agreement shall govern. The SOPs will be completed within sixty (60) days of the Effective Date, then appended to this Agreement as Schedule "A", and incorporated herein by reference.

1.21 "Territory" shall mean the United States of America.

1.22 "Triage Services" shall have the meaning ascribed to such term in Section 5.2 of this Agreement.

1.23 "US" shall mean the United States of America.

2. APPOINTMENT AS PREFERRED DISTRIBUTOR

2.1 Subject to the terms and conditions in this Agreement, Centocor hereby appoints Nova Factor and Nova Factor hereby accepts appointment as a preferred Retail distributor of Product to Outpatient Customers in the Territory on a Retail AOB basis. Centocor expressly reserves the right to sell Product to wholesalers, wholesale specialty distributors, hospitals, pharmacy benefit managers and other third parties, to sell Product directly and to appoint other distributors, retail or otherwise, inside and outside of the Territory. Centocor shall provide Nova Factor with written notice at least * (*) days prior to the effective date of any agreement between Centocor and a Retail AOB distributor under which Centocor grants the Retail AOB distributor the right to provide Product to Outpatient Customers in the Territory on a Retail AOB basis, which notice shall specify the name of the other Retail AOB distributor but shall not specify any other business terms of the Agreement with the other Retail AOB distributor. If Centocor contracts directly with a Home Care Delivery Company for Home Care Services, Centocor will notify Nova Factor of the existence of that contract, but not the terms and conditions of that contract. Nova Factor will not promote wholesale distribution and will not sell Product directly to Infusion Providers unless specifically approved in writing in advance by Centocor; except Nova Factor may (i) provide wholesale distribution of Product on a named-patient basis for Medicaid Patients in those states listed on Schedule "B" attached hereto and incorporated herein by reference; and (ii) provide wholesale distribution on a named-patient basis to those hospitals or other entities listed on Schedule "C" attached hereto and incorporated by reference. Schedule "C" may be amended by Nova Factor with the prior written consent of Centocor.

2.2 Nova Factor agrees to use commercially reasonable efforts to market, sell and distribute the Product to managed care payors, and to work with Centocor's marketing team, including without limitation, outside contract sales representatives, if any, during the terms of this Agreement to distribute the Product in the Territory in an effective and diligent manner.

*Omitted information is the subject of a request for confidential treatment

pursuant to Rule 406 under the Securities Act of 1933 and has been filed separately with the Securities and Exchange Commission.

3. ORDERS, DELIVERY

3.1 The parties hereto agree that, commencing upon the date hereof and continuing during the term of this Agreement, Centocor will sell the Product to Nova Factor for resale by Nova Factor in the Territory and Nova Factor shall purchase Product from Centocor at the Purchase Price, subject to the right of Centocor to allocate supplies of Product under Section 3.5 specified herein. Nova Factor shall order Product from Centocor in such quantities as are necessary to meet the demand for Product from Nova Factor's Outpatient Customers provided that Nova Factor will keep a minimum stock of Product equal to an average of * (*) * total sales to Outpatient Patient Customers, which average shall be based on the previous * (*) * sales of Product by Nova Factor. All purchases of Product by Nova Factor shall be in accordance with SOPs, and in accordance with the terms and conditions set forth in this Agreement.

3.2 Centocor shall cause LHSI to ship Product to Nova Factor FOB Point of Origin. Product shall be transported from the LHSI warehouse facility to the Facility by means of transportation selected by Centocor. * will prepay all freight costs incurred to ship Product from LHSI to Nova Factor's Facility. Title to Product shall transfer to Nova Factor upon delivery of Product to the carrier. * will pay any costs due to special shipping requests made by *. Centocor may ship Product in installments as it deems advisable or necessary, in accordance with SOPs. Risk of loss of Product will remain with Centocor during transit from LHSI to the Facility and will transfer to Nova Factor upon delivery of Product to the Facility.

3.3 Product supplied to Nova Factor hereunder shall be in final labeled and packaged vials. Nova Factor shall unload each shipment of Product immediately upon receipt at the Facility. Nova Factor shall carefully examine Products upon delivery and shall immediately notify Centocor's Customer Service Department and the carrier by phone or fax of any claim of nondelivery of a portion of a shipment or any defect or damage in any Product which is reasonably discoverable upon visual inspection of the Product without unloading individual shipping units. Along with notice of any defect or damage, Nova Factor shall furnish to Centocor a detailed written description of the nature of the defect or damage. In the event of any such claim, Nova Factor shall hold the Product pending receipt of Centocor's instruction concerning disposition and permit Centocor to inspect the Product upon request. Centocor agrees to provide such instruction promptly.

*Omitted information is the subject of a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933 and has been filed separately with the Securities and Exchange Commission.

Upon receipt of notice of any defect or nondelivery, Centocor, at its option, shall replace or repair any defective Product, in accordance with the Centocor Wholesaler Returned Goods Policy attached hereto as Schedule "D" and incorporated herein by reference, as amended from time to time. The Product will be deemed to have been received in good condition unless Nova Factor notifies Centocor to the contrary within * (*) * of opening the shipment container but in no event later than * (*) * following receipt by Nova Factor. Nova Factor shall, at * expense, follow Centocor's instructions to return to Centocor, LHSI or a third party disposal company designated by Centocor, any Products delivered to Nova Factor which are not in compliance with Centocor's FDA approved quality assurance specifications. Nova Factor shall cooperate with Centocor in investigating the cause of any suspected defect in Product.

3.4 Nova Factor shall not alter Product packaging without Centocor's written consent (except to remove Product from the shipping containers) and shall not alter Product labeling except to add a prescription label to Product, as permitted by applicable law. Nova Factor shall at all times comply with the SOPs and information and recommendations otherwise communicated by Centocor in writing with respect to storage, handling and shipment of Products (including storage of Product at 2-8 degrees Celsius, if requested by Centocor), provided that if such information and recommendations are materially different than those otherwise set forth in the SOPs and result in a material increase in the costs incurred by Nova Factor in performing its obligations under this Agreement, *. Nova Factor shall pay for all costs associated with storage, handling and shipment of Product from the Facility.

3.5 Notwithstanding anything herein to the contrary, in the event of a shortage of Product, Centocor shall allocate available supplies of Product in such manner that Nova Factor is treated as well as Centocor's other direct customers in the Territory as determined by Centocor. If Centocor is not able to supply Product to Nova Factor in the quantities ordered by Nova Factor for more than * (*) * on any occasion during the term of this Agreement because of a Product shortage caused by factors other than the market demand exceeding Centocor's full capacity to produce Product (including, but not limited to, factors such as an FDA recall due to negligence or intentional wrongdoing of Centocor, major plant shutdown, or similar

event), Nova Factor shall have the right to terminate this Agreement upon * (*) * written notice.

*Omitted information is the subject of a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933 and has been filed separately with the Securities and Exchange Commission.

3.6 Notwithstanding Section 3.5 above, should the FDA quarantine the Product, Centocor shall have * (*) * from the date of receipt of notice of quarantine from the FDA to cure the quarantine. In the event Centocor has not cured the quarantine within * (*) * after receipt of notice of quarantine from the FDA, Nova Factor may terminate this Agreement upon expiration of * (*) * notice period.

4. CUSTOMER ORDERS AND IN-OFFICE DELIVERY

4.1 Centocor will provide such marketing, sales and patient/physician education materials to be distributed by Nova Factor as shall be deemed necessary by Centocor to promote the Product. Relevant Patient and Infusion Provider marketing and sales literature distributed by Centocor's sales force will describe the AOB program offered through Nova Factor (as described in this Agreement), and will contain a Nova Factor toll-free number as the point of contact for enrollment in such program. Centocor and Nova Factor shall mutually agree on the description of Nova Factor to be used in Centocor's sales, marketing, and patient/physician educational materials. Nova Factor shall maintain such telephone and fax lines dedicated to calls from customers for Product as it determines to be needed to service these customers.

4.2 In accordance with a Physician's prescription, Nova Factor shall ship Product and the appropriate infusion-related medical supplies listed in Schedule "E" attached hereto and incorporated herein by reference, to Outpatient Customers at any office or other location at which the Patient will receive infusion, such as a hospital, clinic, or infusion center, all as designated by the Outpatient Customer, via Federal Express standard overnight delivery service or another mutually agreed to overnight carrier in accordance with SOPs and at no cost to Centocor. Schedule "E" may be modified or changed by mutual written agreement of Centocor and Nova Factor. Nova Factor shall have sole responsibility for purchasing and shipping the infusion-related medical supplies for the Product at no cost to Centocor. Nova Factor shall use its best efforts to ship Product so that Product having the earliest expiration date is shipped first from available inventory. Nova Factor shall track each shipment of Product to each Outpatient Customer and confirm receipt in accordance with SOPS.

4.3 Nova Factor will, upon the request of the Outpatient Customer, work with personnel to coordinate plans for outpatient Product administration for Patients. Nova Factor will provide written and telephone assistance regarding home administration of the Product to Patients.

*Omitted information is the subject of a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933 and has been filed separately with the Securities and Exchange Commission.

4.4 Nova Factor will provide the following services to each Outpatient Customer requesting Product from Nova Factor: Nova Factor will reasonably investigate whether the Patient qualifies for AOB Services in accordance with Section 4.7 of this Agreement. If the Patient qualifies for AOB Services, Nova Factor will provide such AOB Services in accordance with Sections 4.5 through 4.9 of this Agreement. If the Patient does not qualify for AOB Services because the Patient's health insurer/governmental program/third party payor does not utilize Nova Factor as a pharmacy, Nova Factor will transfer the Patient's prescription to the pharmacy designated by the Patient's health insurer/governmental program/third party payor with Triage Services in accordance with Sections 5.1 and 5.2 of this Agreement. If, after reasonable efforts (as defined in Section 4.7), Nova Factor cannot obtain Insurance Benefits for Product requested by an Outpatient Customer, Nova Factor will refer the Outpatient Customer to * in accordance with Section 4.7 of this Agreement.

4.5 In Retail transactions, Nova Factor will obtain an AOB from the Outpatient Customer and will bill the Outpatient Customer/insurance company/ governmental program/other third party payor in Nova Factor's name. Nova Factor shall use reasonable efforts to obtain reimbursement clearance, if necessary, for anticipated subsequent orders from an Outpatient Customer prior to actual receipt of the subsequent order.

4.6 Nova Factor will use its Retail AOB service model ("AOB Services") to distribute the Product to Outpatient Customers. Nova Factor will offer a toll-free phone number where health care professionals in clinics, physician's offices, infusion centers, or home care can:

- identify whether Patients have Insurance Benefits for the Product;
- coordinate timely delivery of Product and supplies:
- arrange to have Product billed directly to the Outpatient

Customer's insurance company/governmental program/other third-party payor.

*Omitted information is the subject of a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933 and has been filed separately with the Securities and Exchange Commission.

Nova Factor Retail AOB Services will include the following:

A. Reimbursement services.

1. Accepting Patient referrals by toll free phone call or fax.

2. Verification of Patient's Insurance Benefit.

3. Use reasonable efforts to obtain prior authorization for therapy and other supporting documentation.

4. Initiating requests for formulary status or medical review on a Patient specific basis.

5. Explaining the Outpatient Customer's Insurance Benefits and their responsibility to the appropriate party.

6. Accepting the Outpatient Customer's AOB, which includes consent for therapy, release of medical records, and acknowledgement of financial responsibility.

7. Filing insurance claims on the Outpatient Customer's behalf.

8. Use reasonable efforts to collect from the Outpatient Customer's insurance company/governmental program/third party payor.

9. Use reasonable efforts to appeal denied claims.

10. Use reasonable efforts to collect Outpatient Customer's copayments and deductibles.

11. Coordination of Insurance Benefits with Outpatient Customer's secondary insurance.

B. Pharmacy services.

1. Obtaining the prescription for the Product.

2. Filling the prescription and labeling the medications in compliance with state pharmacy laws.

3. Providing current information about Product administration procedures.

4. Coordinating planned delivery times with the administration site so that the Product is available in time for the Outpatient Customer's infusion appointment.

5. Shipping the Product to the administration site, and following up via the Federal Express tracking system to confirm receipt.

6. Providing information about procedures for Product administration to healthcare professionals.

7. Providing information about the Product for the Outpatient Customer.

8. Computerized next shipment scheduling capability for follow-up doses.

9. Follow-up calls to the prescriber to arrange the next doses of Product.

C. Managed care sales support.

1. Contracting with various payor groups, Health Maintenance Organizations, Preferred Provider Organizations, PBM organizations, PPM organizations or indemnity insurance carriers to obtain in-network provider status.

2. Identifying patients with closed networks or for whom Nova Factor is out-of-network and follow-up of these contracting opportunities.

3. Collaboration with the Centocor managed care sales force through sharing of information to achieve formulary status for the Product and to gain network provider status to Nova Factor.

4.7 Nova Factor will use reasonable effort to attempt to obtain Insurance Benefits for all FDA approved indications for the Product. For all referrals or non-FDA approved indications for the Product,

Nova Factor will refer the Patient to * for reimbursement clearance. Patients referred to * for non-FDA approved indications for reimbursement assistance will be referred back to Nova Factor for Retail AOB Services once reimbursement clearance is obtained.

4.8 Nova Factor shall incur all billing and collection costs associated with its sale of Product.

4.9 Nova Factor shall pay for all costs associated with distribution and delivery of Product to its Outpatient Customers.

5. TRIAGE AND PATIENT-RELATED SERVICES

5.1 Nova Factor will accept referrals for the retail AOB Services program, and will perform insurance verification. If Nova Factor is in-network for the Patient's health plan, Nova Factor will serve the Patient directly through Retail AOB Services. If Nova Factor is not in-network due to either a closed network, lack of network affiliation, or requirements for an in-state provider, Nova Factor will refer the Outpatient Customer to the in-network provider designated by the Patient's health insurer/governmental program/other third party payor.

*Omitted information is the subject of a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933 and has been filed separately with the Securities and Exchange Commission.

5.2 Reimbursement services will include accepting the referral and collecting patient demographic information, following up with the patient for additional information (prescription, drug card, secondary insurance), contacting the insurance carrier to verify benefits, obtaining prior authorization when permitted, and notifying the patient of his or her insurance benefits and financial responsibility. The triage process includes contacting the in-network provider, transferring the prescription by phone or fax as required by State Pharmacy laws, and following up with the Infusion Provider to let prescriber know who will be providing services ("Triage Services"). Nova Factor will use Triage Services only for FDA approved indications for the Product.

6. OTHER SERVICES

6.1 Nova Factor shall provide a licensed pharmacist, who is properly trained to answer Product-related questions or requests for emergency supplies of Product, to answer telephone questions relating to the Product posed by doctors and/or Outpatient Customers (i) from 9:00 A.M. to 6:00 P.M. E.S.T., Monday through Friday,

except legal holidays, for routine calls and (ii) twenty-four hours (24) per day for emergency calls. Nova Factor will not handle requests for clinical information outside of the scope of Nova Factor's usual pharmacist counseling which will be limited to information covered in the Product package insert. Nova Factor shall pay for all costs associated with the services provided pursuant to this Section 6.1.

7. DATA AND REPORTS

7.1 Nova Factor shall maintain in a separate, Centocor-specific database (the "Database") the information specified in Schedule "F" attached hereto and incorporated herein by reference, for each customer and each order. In addition, Nova Factor shall maintain in the Database, by Outpatient Customer, any information Centocor reasonably requests Nova Factor to track to the extent that collection of such other information will not result in a material increase in the costs incurred by Nova Factor in performing its obligations under this Agreement.

7.2 As permitted by law, Nova Factor shall generate and furnish to Centocor electronic or written reports at a mutually agreed upon frequency from the Database as specified in Schedule "G" attached hereto and incorporated herein by reference and such other reports as Centocor may from time to

time reasonably request to the extent that generation of such other reports will not result in a material increase in the costs incurred by Nova Factor in performing its obligations under this Agreement. The reports shall identify Outpatient Customers only by number and not by name. Physician-level data will be provided, as specified, on a named basis. Reports shall include, without limitation, the following information: physician name, physician practice name, practice address, Patient number and Patient diagnosis.

8. PRICE, PAYMENT

8.1 Nova Factor shall purchase Product from Centocor at a price * ("Purchase Price"). Any changes in Purchase Price will be effective upon written notice to Nova Factor. Nova Factor shall have the sole responsibility and authority for determining the price at which it will sell Product to its Outpatient Customers.

8.2 Nova Factor shall prepare and provide to Centocor * (*) * after the end of each calendar quarter, a calendar quarterly report in the format set forth in Schedule "H" attached hereto and incorporated herein by reference, which report will show the * for the calendar

quarter and * for the calendar quarter. *

8.3 All amounts due under Section 8.1 above are payable by electronic funds transfer to Centocor in US Dollars. Centocor shall invoice upon shipment to Nova Factor for all amounts due hereunder. *

8.4 Centocor shall pay Nova Factor for Triage Services provided under Section 5 of this Agreement an amount equal to *. Nova Factor shall invoice Centocor monthly for this amount and all billed amounts are due within thirty days of the date of receipt of invoice by Centocor.

8.5 Except as otherwise expressly set forth herein, Nova Factor shall be responsible for all costs and expenses associated with fulfilling its obligations under this Agreement, including reimbursement and AOB Services.

8.6 All Product prices (including Purchase Price) are exclusive of federal, state and local excise, sales, use and other taxes levied or imposed on the sale, shipment, delivery, ownership, possession or resale of Product or any other activities contemplated under this Agreement. Except for taxes on Centocor's income, Nova Factor shall be liable for and pay all taxes imposed in connection with the activities contemplated hereunder.

*Omitted information is the subject of a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933 and has been filed separately with the Securities and Exchange Commission.

8.7 *

9. REPLACEMENT AND RETURNS

9.1 In the event Nova Factor, or a Nova Factor Outpatient Customer, returns or requests to return a Product, Centocor will accept return of such Product and replace, or give a credit to Nova Factor for, the Product in accordance with the Centocor Wholesaler Return Goods Policy, attached hereto as Schedule "D", and incorporated herein by reference, as amended by Centocor from time to time. Centocor will accept such returns of Product under such policy from, and provide replacement Product or credit to, only Nova Factor. Nova Factor shall be solely responsible for returns of Product from, and replacements and/or credits for Product to, Nova Factor Outpatient Customers.

10. ADVERSE EVENT REPORTING AND CUSTOMER COMPLAINTS

10.1 Nova Factor will not be responsible for FDA reporting of Adverse Events Nova Factor will comply with those policies and instructions concerning adverse events which are set out on Schedule "I" attached hereto and incorporated herein by reference. Nova Factor will immediately report to Centocor any Product problems such as defective or mislabeled Product.

11. SUSPENSION OF DISTRIBUTION AND RECALLS

11.1 If requested by Centocor as the result of a problem with Product quality or directive from the FDA, Nova Factor shall suspend distribution of Product. If the suspension continues for more than * (*) *, Centocor will repurchase the Product held in inventory by Nova Factor at the Purchase Price paid by Nova Factor including all contractual discounts, Nova Factor will ship the repurchased Product to Centocor at * expense and Nova Factor shall have the right to terminate this Agreement upon * (*) * written notice.

11.2 Centocor shall promptly notify Nova Factor of any recalls of Product initiated by Centocor or required by the FDA. Upon receipt of notice of a recall of Product from Centocor, Nova Factor shall notify as appropriate the affected customers. Centocor shall provide Nova Factor with the form of letter to be used in connection with notice of any recall which shall contain the appropriate instructions as to whether the customer should return or dispose of the affected Product. *. Nova Factor shall cooperate in any recalls by providing Product tracking information reasonably requested by Centocor.

*Omitted information is the subject of a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933 and has been filed separately with the Securities and Exchange Commission.

11.3 Nova Factor shall maintain for two (2) years after termination or expiration of this Agreement such information as shall be reasonably required by Centocor to effect a Product recall after termination or expiration of this Agreement, and shall make such information available to Centocor, at Centocor's request, in the event of such a recall.

11.4 Nova Factor shall cooperate with Centocor in investigating any Product failure which resulted in the need for a recall.

12. REPRESENTATIONS, WARRANTIES AND COVENANTS OF NOVA FACTOR

12.1 Nova Factor is a corporation duly organized, validly existing and in good standing under the laws of the State of Tennessee.

12.2 In performing its obligations under this Agreement, Nova Factor shall comply with all applicable laws and regulations, including federal and state pharmacy laws, laws relating to the disposal of pharmaceutical products and hazardous wastes, to the extent disposal of Product is Nova Factor's responsibility under this Agreement, and all applicable professional and industry standards and good business practices.

12.3 Nova Factor represents and warrants that it is currently eligible to participate as a provider in the Medicaid program in each state in the Territory except those states listed on Schedule "J", attached hereto and incorporated herein by reference, and covenants that it will maintain such eligibility during the term of this Agreement. Nova Factor may amend Schedule "J" in its sole discretion to add additional states and shall provide Centocor with prompt notice of any such amendment, provided that Nova Factor shall not add any state to Schedule "J" unless that state has changed its laws to require an in-state pharmacy presence for eligibility in its Medicaid program. Nova Factor shall remove a state from Schedule "J" (and shall provide notice to Centocor of such removal) when the state no longer requires an in-state pharmacy presence for the eligibility in the state's Medicaid program.

12.4 Nova Factor covenants that it shall not take any action which would materially adversely affect its standing or that of Centocor in the

pharmaceutical industry or with respect to Product customer base or which would undermine the image of Product.

12.5 Nova Factor represents and warrants that it now has and shall maintain in full force during the term of this Agreement all federal and state pharmacy, wholesaler, retailer and other licenses or approvals required by Nova Factor to fulfill its obligations under this Agreement, except as otherwise set forth in Section 12.3, and except that Nova Factor shall not be required to maintain its licenses in any state which amends its laws and regulations to require an in-state pharmacy presence as a requirement for licensing if the new requirement would materially increase the costs incurred by Nova Factor in performing its obligations under this Agreement. Nova Factor covenants that it shall provide Centocor with notice of any communications with pharmacy licensing boards which relate to potential problems with facilities, operations or procedures used by Nova Factor in its distribution of Product, including notices of inquiries, investigations or inspections and resulting findings.

12.6 Nova Factor covenants that it shall not make any performance claims or engage in any promotional activities with respect to Product

except for the distribution of Product literature prepared by Centocor and any other activities expressly approved by Centocor.

12.7 Nova Factor shall not use the trademarks or tradenames of Centocor except to the extent contained in Product literature provided by Centocor and on Product labels or as otherwise approved by Centocor.

12.8 Nova Factor represents and warrants that it has the authority to enter into this Agreement and that its execution of this Agreement and its performance of its obligations hereunder will not conflict with and is not prohibited by any other agreement to which Nova Factor is a party.

12.9 No consent, approval, order of authorization of, or registration, qualification, designation, declaration or filing with, any federal, state or local government authority is required in connection with the consummation by Nova Factor of the transactions contemplated by this Agreement.

12.10 Nova Factor covenants to Centocor that it will: (i) comply fully with all laws applicable to Nova Factor and its activities under this Agreement; (ii) notify Centocor in writing of any material civil, criminal or administrative action brought against Nova Factor, its directors, officers, employees or agents which is likely adversely to affect Nova Factor's ability to perform its obligations under this Agreement, and promptly to provide Centocor with reasonably detailed information regarding Nova

Factor's handling and disposition of any such action; and (iii) not initiate any voluntary communications with regulatory agencies relating to the Product without Centocor's prior knowledge.

13. REPRESENTATIONS AND WARRANTIES OF CENTOCOR

13.1 Centocor is a corporation duly organized, validly existing and in good standing under the laws of the Commonwealth of Pennsylvania.

13.2 Centocor shall not use the trademark or tradenames of Nova Factor except to the extent necessary for activities contemplated under this Agreement.

13.3 Centocor shall be responsible for testing Product and ensuring that Product complies, when shipped to Nova Factor, with all applicable laws, regulations, directives and requirements of the FDA, including without limitation, standards of identity, strength, quality and purity, packaging and labeling requirements, product warning requirements, product design and safety requirements and advertising

requirements.

13.4 Centocor represents that it has the authority to enter into this Agreement and that its execution of this Agreement and its performance of its obligations hereunder will not conflict with and is not prohibited by any other Agreement to which Centocor is a party.

13.5 No consent, approval, order of authorization of, or registration, qualification designation, declaration or filing with, any federal, state or local government authority is required in connection with the consummation by Centocor of the transactions contemplated by this Agreement, other than the commercial marketing approval for the Product discussed in the second recital of this Agreement.

13.6 Centocor covenants to Nova Factor that it will: (i) comply fully with all laws applicable to Centocor and its activities under this Agreement; (ii) notify Nova Factor in writing of any material civil, criminal or administrative action brought against Centocor, its directors, officers, employees or agents which is likely adversely to affect Centocor's ability to perform its obligations under this Agreement, and promptly to provide Nova Factor with reasonably detailed information regarding Centocor's handling and disposition of any such action; and (iii) notify Nova Factor after Centocor's voluntary communications with regulatory agencies which may materially affect Centocor's ability to perform its obligations under this Agreement.

14. DISCLAIMER AND LIMITATION OF REMEDIES

14.1 EXCEPT AS STATED IN SECTIONS 13.3, 13.4, 13.5 and 13.6 OF THIS AGREEMENT, CENTOCOR MAKES NO WARRANTY, EXPRESS OR IMPLIED, REGARDING THE PRODUCT SOLD TO NOVA FACTOR.

14.2 Except for Section 17.1, Nova Factor's sole and exclusive remedy for delivery of defective or nonconforming Product will be to receive credit or like quantity of replacement goods, upon the return of defective or nonconforming Product. Under no circumstances will Centocor be liable for any incidental or consequential damages based on Product purchased by Nova Factor.

15. TERM AND TERMINATION

15.1 The Agreement will be for a three (3) year term and will automatically renew from year to year thereafter unless either party should terminate the Agreement upon notice as set forth below.

15.2 * may terminate this Agreement for *, at any time upon * (*) * prior written notice.

15.3 Upon receipt or delivery of a termination notice or * (*) * prior to the expiration of this Agreement at the end of the term, as applicable, the parties shall begin to transition distribution of Product for Nova Factor's customers to a party to be designated by Centocor. Transition of distribution under this section shall mean the following:

(i) At Centocor's request, Nova Factor shall provide written notice to all of Nova Factor's customers of the change in distributors; and

(ii) Nova Factor shall transfer a copy of the Database and customer information including prescription files to Centocor, provided, that if the applicable patient confidentiality laws prohibit transfer of the customer's name to Centocor, Nova Factor shall transfer the Database and customer information using customer numbers instead of names; and

(iii) Nova Factor's obligation to order additional Product shall cease and Centocor shall repurchase any Product held in inventory by Nova Factor within * (*) * after the date of termination at *. All such inventory shall be returned to Centocor at * cost.

15.4 Sections 9, 10, 11, 14, 15, 16, 17, 18 and 22.9 shall survive termination or expiration of this Agreement.

*Omitted information is the subject of a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933 and has been filed separately with the Securities and Exchange Commission.

16. REGULATORY, INSPECTIONS, AUDITS

16.1 Nova Factor shall provide to Centocor all documents and information requested by the FDA or by Centocor in support of its regulatory filings. Copies of all documents to be provided to the FDA shall be provided to Centocor in advance, if practicable, or otherwise within two (2) business days of delivery to the FDA. Nova Factor shall notify Centocor immediately upon receipt of notice of any inspection by the FDA directed specifically toward Product, and Centocor shall have the right to have an employee present at any such inspection, if allowed by law. In addition, Nova Factor shall notify Centocor of any FDA correspondence or inspections that concern Nova Factor generally and which are not related to a non-Centocor product. Nova

Factor shall notify Centocor immediately of any notices, requests for information or other communications related to Product from the U.S. Department of Health and Human Services or any other government agency or any state healthcare program or other state agency and to the extent permitted under the applicable law, shall give Centocor copies of such communication.

16.2 Nova Factor shall provide to Centocor, at Centocor's request, any information reasonably required in connection with Centocor investigations relating to recalled or returned Product or any requests or investigations by or filings with governmental bodies, including the FDA or in support of Centocor's applications to the FDA. Nova Factor shall respond within two (2) business days to any reasonable requests for information by Centocor.

16.3 Nova Factor shall from time to time submit to inquiries, audits and inspections by Centocor during normal business hours or at any other time during which the services being audited are ongoing, including but not limited to, audits of regulatory and quality assurance standard operating procedures and FDA correspondence referenced in Section 16.1 above. Centocor shall give Nova Factor at least two (2) business days prior notice of any audit or inspection and shall bear the costs of such audit or inspection.

16.4 Nova Factor shall permit Centocor's auditors, or its designated representatives to have reasonable access, upon five (5) business days

prior written notice to Nova Factor and during normal business hours, to Nova Factor's financial books and records as may be reasonably necessary to verify all documentation and/or address any financial issues regarding the Product and services provided under this Agreement.

17. INDEMNIFICATION

17.1 Centocor shall at all times during the term of this Agreement and thereafter, defend, indemnify and hold Nova Factor and its officers, directors, agents and employees harmless from and against any and all claims, suits, damages, liabilities, costs and expenses, including but not limited to court costs and reasonable attorney's fees, incurred in connection with any third-party claim arising out of the use of any Product, except to the extent caused by or based upon (i) the negligence or intentional misconduct of Nova Factor or any of its officers, directors, agents and employees or (ii) the breach by Nova Factor of any of the terms of this Agreement.

17.2 Nova Factor shall at all times during the term of this Agreement and thereafter, defend, indemnify and hold Centocor and its officers, directors, agents and employees harmless from and against any and all claims, suits damages, liabilities, costs and expenses, including but not limited to court costs and reasonable attorney's fees, incurred in connection with any third-party claim arising out of the (i) negligence or intentional misconduct of Nova Factor or any of its officers, directors, agents and employees or (ii) breach by Nova Factor of any of the terms of this Agreement.

17.3 A party seeking indemnification under this Section shall give prompt notice of the claim to the other party and, provided that the indemnifying party is not contesting the indemnity obligation, shall permit the indemnifying party to control any litigation relating to such claim and disposition of any such claim, provided that the indemnifying party shall act reasonably and in good faith with respect to all matters relating to the settlement or disposition of any claim as the settlement or disposition relates to the parties being indemnified under this Section and the indemnifying party shall not settle or otherwise resolve any claim without prior notice to the indemnified party. The indemnified party shall cooperate with the indemnifying party in its defense of any claim for which indemnification is sought hereunder.

17.4 In no event shall Nova Factor be liable for loss of profit or any other incidental or consequential damages to Centocor.

17.5 In no event shall Centocor be liable for loss of profit or any other incidental or consequential damages to Nova Factor.

18. CONFIDENTIALITY

18.1 Nova Factor agrees to treat any confidential or proprietary information obtained from Centocor and any confidential or proprietary information generated by Nova Factor in performing its obligations under this Agreement, including, but not limited to, information regarding Centocor's pricing policies and reimbursement for the Product, information regarding the cost of providing services to Centocor, the Database, the information in the Database, and anything derived therefrom, (collectively, the "Centocor Information") as the confidential and exclusive property of Centocor, and agrees not to disclose any of the Centocor Information to any third party without first obtaining the written consent of Centocor. Notwithstanding this provision, Nova Factor may disclose Centocor Information to Nova Factor's accountants, bankers, auditors, and attorneys on an as needed basis and may also disclose such information in response to requirements of law or governmental

regulations or in response to subpoena or other lawful process. Nova Factor may provide Patient usage data to managed care organizations, but may not provide pricing, discount or other information relating to Product acquisition cost. Nova Factor agrees that it will use any Centocor Information only for purposes of performing its obligations hereunder and for no other purpose without the prior written consent of Centocor. Nova Factor further agrees to take all practicable steps to ensure that the Centocor Information will not be used by its directors, officers, or employees, except on like terms of confidentiality as aforesaid, and will be kept confidential by them.

The above provisions of confidentiality shall not apply to that part of the Centocor Information which Nova Factor is able to demonstrate by documentary evidence:

(a) was in Nova Factor's possession prior to receipt from Centocor; or

(b) was generally available to the public at the time of receipt from Centocor; or

(c) became generally available to the public through no fault of Nova Factor, its directors, officers, or employees; or

(d) was lawfully received by Nova Factor from some third party not disclosing the information on behalf of Centocor and having a right of further disclosure; or

(e) is required by law to be disclosed, provided that Nova Factor notifies Centocor prior to any such disclosure so as to permit Centocor to oppose same by appropriate legal action.

Nova Factor agrees that, at Centocor's request, it shall return to Centocor all parts of the Centocor Information existing in documentary form, not including pharmacy records, and will, at Centocor's request, return or destroy any copies thereof made by Nova Factor, its directors, officers or employees except that Nova Factor shall retain a copy of the Database, subject to the ongoing obligation of confidentiality. Nova Factor shall not dispose of the information in the Database without first offering in writing, given at least sixty (60) days prior to such disposal, to deliver the information to Centocor.

18.2 Centocor agrees to treat confidential or proprietary information obtained from Nova Factor, (not including the Database, or information about insurers' reimbursement policies with respect to Product) and anything derived therefrom, (collectively, the "Nova

Factor Information") as the confidential and exclusive property of Nova Factor, and Centocor agrees not to disclose any of the Nova Factor Information to any third party without first obtaining the written consent of Nova Factor, provided that Centocor may disclose Nova Factor Information to any third party providing reimbursement related services to Centocor as long as the third party is obligated to Centocor to keep such information confidential. Notwithstanding this provision, Centocor may disclose Nova Factor Information to Centocor's accountants, bankers, auditors, and attorneys on an as needed basis and may also disclose such information in response to requirements of law or governmental regulations or in response to subpoena or other lawful process. Such confidential information shall include, but shall not be limited to, FDA files, training materials, methods of doing business, financial information and operating procedures. Centocor agrees that it will use any Nova Factor Information only for purposes of activities contemplated hereunder and for no other purpose without the prior written consent of Nova Factor. Centocor further agrees to take all practicable steps to ensure that the Nova Factor Information will not be used by its directors, officers, or employees, except on like terms of confidentiality as aforesaid, and will be kept confidential by them.

The above provisions of confidentiality shall not apply to that part of the Nova Factor Information which Centocor is able to demonstrate by documentary evidence:

(a) was in Centocor's possession prior to receipt from Nova Factor; or

(b) was generally available to the public at the time of receipt from Nova Factor; or

(c) became generally available to the public through no fault of Centocor, its directors, officers and employees, or

(d) was lawfully received by Centocor from some third party not disclosing the information on behalf of Nova Factor and having a right of further disclosure; or

(e) is required by law to be disclosed, provided that Centocor notifies Nova Factor prior to any such disclosure so as to permit Nova Factor to oppose same by appropriate legal action.

Centocor agree that, at Nova Factor's request, it shall return to Nova Factor all parts of the Nova Factor Information existing in documentary form and will, at Nova Factor's request, return or destroy any copies thereof made by Centocor, its directors, officers

or employees.

18.3 Nothing contained herein shall be deemed to grant to either party any rights or licenses under any patent applications or patents or to any know-how, technology, inventions or other intellectual property rights of the other party.

18.4 The obligations of the parties under this Section 18 shall continue during the term of this Agreement and for a period ending five (5) years after termination or expiration of this Agreement.

19. INSURANCE

19.1 Nova Factor agrees (i) to obtain and maintain at its cost and expense, while this Agreement is in effect, commercial general liability insurance, including products liability insurance with coverage limits of not less than $1,000,000.00 per occurrence; and $3,000,000.00 in the aggregate, and (ii) not to cancel the insurance or reduce the coverage without giving at least thirty (30) days prior written notice to Centocor. Nova Factor shall cause Centocor to be a notice party on each insurance policy such that Centocor shall receive notice of any cancellation or change in policy. At the request of Centocor, Nova Factor shall provide Centocor with a copy of a certificate of insurance to verify that insurance with the required coverage is in effect. In the event of cancellation or termination of the coverage described herein, Nova Factor shall immediately obtain substitute or replacement coverage.

19.2 Centocor agrees to maintain, at its cost and expense while this Agreement is in effect, general public liability, products liability and property damage insurance with coverage limits of not less than $1,000,000.00 per occurrence; and $3,000,000.00 per annum aggregate. Centocor shall cause Nova Factor to be a notice party on each insurance policy such that Nova Factor shall receive notice of any cancellation or change in policy. At the request of Nova Factor, Centocor will provide Nova Factor with a copy of a certificate of insurance to verify that insurance with the required coverage is in effect, and shall provide that notice of cancellation of termination thereof shall be provided in advance to Nova Factor. In the event of cancellation or termination of the coverage described herein, Centocor shall immediately obtain substitute or replacement coverage.

20. TRAINING

Nova Factor will prepare a training manual and orientation program for Nova Factor personnel to familiarize the personnel with the Product and

the market. Any training manual or orientation program regarding the Product must be approved by Centocor in writing prior to implementation. Nova Factor shall allow Centocor to audit Nova Factor's personnel training sessions.

21. NONCOMPETITION

21.1 During the term of this Agreement, Nova Factor shall not promote, sell or distribute in the Territory another company's treatment for inflammatory bowel disease, rheumatoid arthritis, or *, unless agreed to in writing by Centocor * (*) days prior to such promotion, sale or distribution. After termination of this Agreement for any reason, Nova Factor shall not promote, sell or distribute in the Territory another company's treatment for inflammatory bowel disease, rheumatoid arthritis, or * for a period of * (*) * following the date of termination.

21.2 In the event Centocor enters into a signed written agreement which grants a Retail AOB distributor other than Nova Factor the right to provide Product to Outpatient Customers in the Territory on a Retail AOB basis, the restrictions of Section 21.1 shall not apply. Nova Factor shall provide Centocor with written notice at least * (*) * prior to the effective date of any agreement between Nova Factor and another company promoting, selling or distributing in the Territory treatment for inflammatory bowel diseases, rheumatoid arthritis or *.

21.3 In the event the FDA quarantines the Product or requires recall of the Product from the market in the Territory, the restrictions of Section 21.1 shall not apply.

22. MISCELLANEOUS

22.1 This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, provided that neither party shall have the right to assign this Agreement or its rights and obligations hereunder without the prior written consent of the other party, which such consent shall not be unreasonably withheld, except that

*Omitted information is the subject of a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933 and has been filed separately with the Securities and Exchange Commission.

Centocor may assign this Agreement or its rights and obligations hereunder to its Affiliates or successors in business who assume and agree to be bound by the terms hereof provided the entity has

demonstrated financial ability to carry out Centocor's obligations hereunder.

22.2 This Agreement constitutes the entire and only agreement between the parties relating to the subject matter hereof, and all prior negotiations, representations, agreements and understandings are superseded hereby. No agreements amending, altering or supplementing the terms hereof may be made except by means of a written document signed by the duly authorized representatives of both parties.

22.3 Any notice required by this Agreement shall be given by prepaid, first class, certified mail, return receipt requested, or by air courier, hand delivery, or facsimile, to the parties at the following addresses:

If to Centocor:

Centocor, Inc.
200 Great Valley Parkway
Malvern, Pennsylvania 19355
Attn: Corporate Secretary
Fax: (610) 651-6331

If to Nova Factor:

Nova Factor, Inc.
1620 Century Center Parkway
Suite 109
Memphis, Tennessee 38134
Attn: President
Fax: (901) 385-3780

with a copy to:

Thomas W. Bell, Jr.
Armstrong Allen Prewitt Gentry
Johnson & Holmes, PLLC
Brinkley Plaza
80 Monroe Avenue, Suite 700
Memphis, Tennessee 38103-2467
Fax: (901) 524-4936

Any notice sent under this Section shall be deemed delivered within five (5) days if sent by mail and within twenty-four (24) hours if sent by fax, courier or hand delivery.

22.4 Neither party shall be liable for any failure or delay caused by

fires, flood, earthquakes, peril of the sea, accidents, explosions, sabotage, strikes, or other labor disturbances (regardless of the reasonableness of the demands of labor), civil commotions, riots, invasions, wars, acts, restraints, requisitions, regulations, or directions of governmental authorities, shortages of labor, fuel, power, or raw material, inability to obtain equipment or supplies, inability to obtain or delays in transportation, acts of God, or any other cause beyond its reasonable control ("Force Majeure").

22.5 Headings included herein are for convenience only, and shall not be used to construe this Agreement.

22.6 For purposes of this Agreement, Nova Factor and its employees and agents shall not be deemed agents, servants, partners, joint venturers or employees of Centocor. Thus, they do not have the authority to take action on Centocor's behalf or to bind Centocor without Centocor's prior written consent. Nova Factor, its employees and agents are acting in the capacity of independent contractors of Centocor. Centocor is not responsible for withholding, and shall not withhold, FICA or taxes of any kind from any payments it owes to Nova Factor. Nova Factor is responsible to provide any and all compensation, benefits and/or insurance to its employees and agents. Nova Factor employees and agents are not eligible to participate in, nor are they eligible for coverage under, any of Centocor's benefit plans, programs, employment policies, procedures or workers' compensation insurance.

22.7 If any provision of this Agreement shall be found by a court to be void, invalid or unenforceable, the same shall either be reformed to comply with applicable law or stricken if not so conformable, so as not to affect the validity or enforceability of this Agreement, except if the principal intent

of the Agreement is frustrated by such reformation or deletion, in which case this Agreement shall terminate.

22.8 Failure of either party to enforce a right under this Agreement shall not act as a waiver of that right or the ability to later assert that right relative to the particular situation involved or to terminate this Agreement as a result of any subsequent default or breach.

22.9 Neither Nova Factor nor Centocor shall make any news release or other public statement, whether to the press, stockholders or otherwise, disclosing the terms of this Agreement or of any amendments hereto, or to performance hereunder or the existence of the arrangement between the parties without the prior written

approval of the other party, which approval shall not be unreasonably withheld, or unless required by law.

22.10 This Agreement shall be construed and enforced in accordance with the laws of the Commonwealth of Pennsylvania, excluding choice of law rules.

22.11 This Agreement may be executed in counterparts, including counterparts transmitted by facsimile, each of which shall constitute an original and all of which shall be considered one and the same Agreement. Counterparts or facsimile copies executed by Centocor and Nova Factor shall have the same effect as if the signatures to each counterpart or facsimile copy were on the same document and copies of such documents shall be deemed valid as originals. Centocor and Nova Factor agree to exchange copies of the Agreement with original signatures as soon as practicable after the execution of the facsimile copies.

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

CENTOCOR, INC.	NOVA FACTOR, INC.
By: /s/ James Schoeneck	By: /s/ Randy Grow
Title: Vice President/General Manager	Title: President
Dated: 8/27/99	Dated: 8/27/98

SCHEDULE A

SOP'S

(To be furnished by Centocor within 60 days of contract execution)

SCHEDULE B

States with network pharmacy relationships for Medicaid patients

Alabama
Colorado

Delaware
Florida
Georgia
Kansas
Massachusetts
Maine
North Carolina
Texas
Vermont
Wisconsin

SCHEDULE C

Nova Factor Hospital Relationships

Alfred I. duPont Institute Children's Hospital	Wilmington, DE.
Cook Children's Medical Center	Fort Worth, TX.
Cook Children's Home Care	
Children's Medical Center of Dallas	Dallas, TX.
Texas Pharmaceutical Health Resources	
Children's Memorial Hospital	Chicago, IL.
CM Factor Care	
National Children's Medical Center	Washington, D.C.
Preferred Pediatrics	
Egleston Children's Hospital at Emory University	Atlanta, GA.
Georgia Health Resources	
Zale Lipshy University Hospital	Dallas, TX.
Campus Home Health Care	

SCHEDULE D

Centocor Inc.

Wholesaler Returned Goods Policy

1. Returned Goods - General

   a) No returns will be accepted without prior authorization for credit or exchange.

   b) All returned cartons must have affixed a "Return Goods Authorization" shipping label.

   C) All returned cartons must be clearly marked with the return goods authorization number.

   d) Centocor will only accept physical receipt of returned product through its designated warehouse and shipping firm:

Livingston Healthcare Systems, Inc.,

220 Lake Drive
Newark, DE 19702
Telephone (877)438-2686
Fax (877)438 -2368

e) Centocor will not accept returns of product directly from hospital accounts.

f) Livingston Healthcare Systems, Inc. will supply appropriate shipping and packaging instructions for returns.

2. Returnable Items

a) In-date product, with prior approval by Centocor Customer Service Department.

b) Product shipped in error.

c) Product damaged in transit.

d) Product dated less than two (2) months before and less than six (6) months after stated expiration date.

e) Product returned pursuant to an official drug recall.

f) Product discontinued by Centocor.

3. Non-Returnable Items

a) Product not in the original packaging, product whose contents have been adulterated, or which show signs of tampering.

b) Product obtained in violation of state or Federal regulations.

c) Product damaged or made unsaleable due to improper storage, handling, or shipping by customer.

d) Product involved in a fire sale, sacrifice or bankruptcy sale, or has been acquired in other than normal channels of trade distribution.

e) Product sold on a non-returnable basis.

f) Product damaged by fire or water and/or other insurable hazards.

g) Product more than six (6) months beyond expiration.

4. Credits

a) Credit for approved returns will be issued upon receipt of product.

b) All credits will be issued to designated wholesalers.

c) No debit memos will be accepted.

Centocor, Inc.

RETURN GOODS AUTHORIZATION

Date: Control #:

Bill to: Credit To:

Customer Name:

Address:

Telephone:

Fax:

Person Requesting:

Product: #To Be Returned:

NDC #: Lot #: Expiration Date:

Invoice #:

Price:

Reason for Return:

Institution Credit*: (attach list if necessary)

*Note: all authorizations must have a Purchase Order # & Invoice #

Authorized by: (Signed Name)

(Printed Name)

Date

Internal

Authorized by: (Signed Name)

(Printed Name)

Date

Centocor, Inc.
Terms and Conditions of Sale

Pricing & Orders:

Purchaser may mail, fax, phone or transmit electronically orders for products marketed by Centocor, Inc. Centocor, Inc. sells its products through licensed wholesale distributors at published price in effect on the date of receipt of order. Prices are subject to change without prior notice.

Prices are invoiced at list price and are only subject to the applicable cash discount(s) listed on the invoice. Centocor's terms are 2%, 30 days, net 31 from date of invoice. Centocor reserves the right to charge back the Purchaser for any unearned discount taken.

All purchase orders for Centocor products are subject to these term and conditions of sale and any additional or inconsistent provisions contained in any purchase order or other document provided by the Purchaser are not binding unless accepted in writing by Centocor, Inc. Centocor, Inc. reserves the right to limit the quantities of products and drop shipments to be shipped pursuant to any order or to refuse any order prior to shipment.

Emergency drop shipments may be made to designated customers of the Purchaser.

Products must be ordered in unit packages as described in the Centocor, Inc. Price List.

Title, Shipment, Delivery:

Title to and Risk of loss of Centocor, Inc. products passes to Purchaser upon delivery to a common carrier. Centocor will pay the cost of freight and insurance to Purchaser's location. Purchaser will pay any costs due to special shipping requests. Centocor, Inc. reserves the right to make shipments in installments as it deems advisable or necessary, and all such installments shipped separately will be separately invoiced and paid.

Inspection:

Immediately upon receipt of a shipment of Centocor, Inc.'s products, Purchaser must inspect the products and notify their carrier and Centocor, Inc.'s Customer Service Department by phone or by Fax of any claims for shortages, overages, defects or damage. In the event of any such claim, Purchaser must hold the products pending receipt of Centocor Inc.'s instruction concerning disposition and permit Centocor, Inc. or it's representative to inspect them upon request. Purchaser will follow procedures described in Returns. If Purchaser fails to notify Centocor, Inc. within 2 days from receipt of order, the products will be deemed to have been received in good condition in the quantities stated on the invoice and to have been accepted by Purchaser.

Warranty and Indemnification:

Centocor, Inc. warrants that, as of the date of shipment, Centocor, Inc.'s products will not be adulterated or misbranded within the meaning of the United States Food, Drug, and Cosmetic Act and will not be articles that may not be introduced into interstate commerce under such act. Centocor, Inc. will defend Purchaser and indemnify it against any claim based on the failure of a Centocor, Inc. product purchased directly from Centocor, Inc. to meet appropriate standards of identity, strength, quality, and purity, provided that Purchaser gives Centocor, Inc. prompt notice of the assertion of the claim, or service of a complaint and fully cooperates in the defense thereof by counsel of Centocor, Inc.'s choice. This warranty and indemnification does not apply if the claim results from Purchaser's negligence or it's alteration, misuse, or improper testing, handling or storage of the product.

Sole and Exclusive Remedies:

Except as stated in the preceding section, Centocor, Inc. makes no warranty, express or implied, regarding the products sold to Purchaser. Purchaser's sole and exclusive remedy for delivery of defective or nonconforming products will be to receive credit or like quantity of replacement goods, upon the return of

defective or nonconforming product. Under no circumstance will Centocor, Inc. be liable for any incidental or consequential damages based on product purchased by

Purchaser.

Returns:

Customer agrees to abide by Centocor's published Return Goods Policy.

Product Recall:

Centocor, Inc. will compensate Purchaser for the reasonable direct expense incurred in performing all requested product recall services.

Other Terms:

Credit. Purchaser must furnish financial information requested by Centocor, Inc. to establish and maintain it's financial responsibility. Centocor reserves the right to require cash payment before shipment or on delivery if, in its sole judgement, Purchaser's financial responsibility has become impaired.

Change of Ownership. Purchaser must notify Centocor, Inc., in writing of any sale or transfer of majority ownership or controlling interest in Purchaser and any change of address or Distribution centers at least 30 days before such action.

Confidential Information. All information provided to the Purchaser concerning Centocor, Inc. or it's products that is designated confidential must not be disclosed except with the written permission of Centocor, Inc.

Taxes & Other Charges. Purchaser will pay, or reimburse Centocor, Inc. for, any use tax, sales tax, duty, inspection or testing fee, or any other tax, fee or charge of any nature imposed by any governmental authority on purchases of Centocor, Inc.'s products by Purchaser. If Purchaser claims an exemption from any tax, it must inform, and provide copies to, Centocor, Inc. of all applicable exemptions.

By placing orders for Centocor, Inc. products Purchaser will accept the above terms and conditions.

SCHEDULE E

Infusion-Related Medical Supplies

- NaCl 0.9% 250 ml in non-PVC infusion container
- Non-PVC IV administration set with in-line 1.2 micron filter and infusion regulator
- 50 ml sterile water for injection

- Five alcohol wipes
- IV bag label

SCHEDULE F

Centocor Reports

*

*Omitted information is the subject of a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933 and has been filed separately with the Securities and Exchange Commission.

SCHEDULE G

Database for Reports

*

*Omitted information is the subject of a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933 and has been filed separately with the Securities and Exchange Commission.

SCHEDULE H

*

*Omitted information is the subject of a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933 and has been filed separately with the Securities and Exchange Commission.

SCHEDULE I

Policy for Adverse Event Reporting

1. Nova Factor is not responsible for FDA reporting of adverse events.

2. When adverse events are identified through contacts with either patients or health care professionals, Nova Factor will transfer the call to the Centocor Medical Affairs Department.

3. In the event that Nova Factor cannot transfer the call directly to the Centocor Medical Affairs Department, Nova Factor will instruct the caller to contact the Medical Affairs Department and will inform the caller of the appropriate phone number.

SCHEDULE J

States for which Nova Factor cannot Serve Medicaid Patients due to Requirements for an In-State Provider

District of Columbia
Hawaii
Indiana
Nevada
Rhode Island
South Carolina
West Virginia

Exhibit 10.66

AMENDMENT NO. 2

DATED AS OF MARCH 1, 1999

TO

LOAN AND SECURITY AGREEMENT

AS AMENDED

DATED AS OF JUNE 5, 1997

AMONG

ACCREDO HEALTH, INCORPORATED AND ITS SUBSIDIARIES

AND

NATIONSBANK, N.A.

AND

FIRST TENNESSEE BANK NATIONAL ASSOCIATION

AND

NATIONSBANK, N.A., AS AGENT

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AMENDMENT NO. 2 dated as of March 1, 1999 under and to that certain Loan and Security Agreement dated as of June 5, 1997 as amended by Amendment No. 1 dated August 28, 1998 (collectively, the "Agreement"), among Accredo Health, Incorporated (formerly Nova Holdings, Inc.), a Delaware corporation (the "Borrower"); the Guarantors, jointly and severally; each of the undersigned Banks (in such capacity, the "Banks"), and NationsBank, N.A. (successor to NationsBank of Tennessee, N.A.), as Agent for the Banks (in such capacity, the "Agent").

W I T N E S S E T H :

WHEREAS, the Borrower, the Guarantors, the Banks and the Agent are parties to the Agreement; and

WHEREAS, Borrower has requested that the Banks increase their Commitments under the Agreement from Forty Million Dollars ($40,000,000) to Sixty Million Dollars ($60,000,000), and the Banks are willing to do so, subject to certain other changes to be made to the Agreement as hereinafter set forth;

NOW THEREFORE, in consideration of the foregoing and the mutual covenants and agreements set forth herein, and for other good and valuable consideration, the receipt and legal sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. DEFINITIONS. All capitalized terms used in this Amendment No. 2 which are not otherwise defined herein shall have the respective meanings ascribed thereto in the Agreement.

2. AMENDMENTS TO AGREEMENT.

2.1. Section I of the Agreement, DEFINITIONS, is hereby amended by adding thereto the following new definitions as follows:

"AMENDMENT NO. 2 EFFECTIVE DATE" has the meaning specified in Section 5 of this Amendment No. 2.

In addition to the foregoing new definition, the following definitions are hereby amended:

2.1.1. "COMMITMENTS" and "TOTAL COMMITMENTS" are each hereby amended to replace the figure of $40,000,000 where it appears therein with the figure of $60,000,000.

2.1.2. "FINANCIAL STATEMENTS" is hereby amended to replace the dates contained therein with the dates of June 30, 1998 and January 31, 1999;

2.1.3. "LOAN TERMINATION DATES" is hereby amended to replace the date of October 31, 2000 with the date of December 1, 2001.

2.2. The Agreement is hereby amended to replace the figure of Forty Million Dollars ($40,000,000) wherever it appears therein with the figure of Sixty Million Dollars ($60,000,000).

2.3. Paragraph 6.17(B), DEBT SERVICE COVERAGE, is hereby amended to replace the ratio of 1.20 to 1.00 with the ratio of 1.25 to 1.0.

2.4. The Borrower hereby agrees to pay to the Agent for the benefit of the Banks on a prorated basis a fee of Forty Thousand Dollars ($40,000) in connection herewith and in consideration of this Amendment, said fee to be payable upon the earlier to occur of one year from the date hereof or

upon the Borrower's acquiring any other Person via an Acquisition or merger.

2.5. The form of the Notes attached as EXHIBIT A to the Schedule of Exhibits to the Agreement is hereby amended to replace said Notes with the form of the Notes attached hereto as EXHIBIT A-1. In addition, the form of the Guaranty and Suretyship Agreements attached as EXHIBIT F to the Schedule of Exhibits to the Agreement is hereby amended to replace said Guaranties with the form of the Guaranties attached hereto as EXHIBIT F-1.

3. REPRESENTATIONS AND WARRANTIES. To induce the Banks and the Agent to enter into this Amendment No. 2, Borrower and Guarantors jointly and severally represent and warrant to the Banks and the Agent as follows:

3.1. INCORPORATION. Accredo Health, Incorporated is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, and is qualified to transact business in the State of Tennessee; Nova Factor, Inc., Southern Health Systems, Inc. and Horizon Health Systems, Inc. are corporations duly organized, validly existing and in good standing under the laws of the State of Tennessee; each of the foregoing corporations has the lawful power to own its properties and to engage in the business it now conducts, and each is duly qualified and in good standing as a foreign corporation in the jurisdictions wherein the nature of the business transacted by it or property owned by it is both material and makes qualification necessary; Accredo Health, Incorporated has its chief executive office and principal place of business in Memphis, Tennessee, and each of the other corporations has its chief executive office and principal place of business located in either Nashville, Tennessee, or Memphis, Tennessee.

3.2. DUE AUTHORIZATION, NO CONFLICTS, ETC. The execution, delivery and performance by the Borrower and Guarantors of this Amendment No. 2 and any and all other agreements, instruments and documents to be executed and/or delivered by the Borrower or any Guarantor pursuant hereto or in connection herewith, and the consummation by Borrower and Guarantors of the transactions contemplated hereby or thereby: (a) are within the corporate powers of each; (b) have been duly authorized by all necessary corporate action, including without limitation, the consent of stockholders where required; (c) do not and will not (i) contravene the respective certificate of incorporation or by-laws or other comparable governing documents of

Borrower or any Guarantor, (ii) violate any Laws, or any order or decree of any court or governmental authority, or (iii) conflict with or result in the breach of, or constitute a default under, or result in the termination of, any material contractual obligation of Borrower or any Guarantor, and (d) do not require the consent, authorization by, or approval of, or notice to, or filing or registration with, any governmental authority or any other Person other than those which have been obtained and copies of which have been delivered to the Agent pursuant to Subsection 4.1(a)(ii) hereof, each of which is in full force and effect.

3.3. DUE EXECUTION, ETC. This Amendment No. 2 and each of the other agreements, instruments and documents to be executed and/or delivered by Borrower or any Guarantor pursuant hereto or in connection herewith (a) has been duly executed and delivered, and (b) constitutes the legal, valid and binding obligation of each, enforceable against it in accordance with its terms, subject however to state and federal bankruptcy, insolvency, reorganization and other laws and general principles of equity affecting enforcement of the rights of creditors generally.

4. CONDITIONS PRECEDENT. The effectiveness of this Amendment No. 2 is subject to the fulfillment of the following conditions precedent on or prior to the Amendment No. 2 Effective Date (as hereinafter defined in Section 5 hereof):

4.1. CONDITIONS PRECEDENT TO EFFECTIVENESS OF AMENDMENT NO. 2. The Agent shall have received, on or prior to the Amendment No. 2 Effective Date, the following, each dated on or prior to the Amendment No. 2 Effective Date unless otherwise indicated, in form and substance satisfactory to the Agent and in sufficient copies for each Bank:

(a) Certified copies of (i) the resolutions of the Board of Directors of Borrower and each Guarantor approving this Amendment No. 2 and each other agreement, instrument or document to be executed by them pursuant hereto or as contemplated hereby, and (ii) all documents evidencing other necessary corporate action and required governmental and third party approvals, licenses and consents with respect to this Amendment No. 2 and the transactions contemplated hereby.

(b) A certificate of the Secretary or an Assistant Secretary of Borrower and each Guarantor certifying the names and true signatures of the officers of Borrower and each Guarantor who have been authorized to execute on behalf of Borrower and such Guarantor this Amendment No. 2 and any other agreement, instrument or document executed or to be executed by Borrower and any Guarantor in connection herewith.

(c) A certificate dated the Amendment No. 2 Effective Date signed by the President or any Vice-President of Borrower, to the following effect:

(i) The representations and warranties of the Borrower contained in Sections 3.1, 3.2 and 3.3 of this Amendment No. 2 are true and correct on and as of such date as though made on and as of such date;

(ii) No Default or Event of Default has occurred and is continuing, and no Default or Event of Default would result from the execution and delivery of this Amendment No. 2 or the other agreements, instruments and documents contemplated hereby; and

(iii) The Borrower has paid or agreed to pay all amounts payable by it pursuant to the Agreement as amended hereby (including, without limitation, all legal fees and expenses of Banks' counsel incurred in connection herewith) to the extent then due and payable.

(d) Two (2) original Revolving Notes duly executed by the Borrower in the amount of $40,000,000 and $20,000,000, respectively, evidencing the renewal, modification and increase of the existing Revolving Notes, in the form attached hereto as EXHIBIT A-1.

(e) Original Guaranty and Suretyship Agreements duly executed by each of Nova Factor, Inc., Southern Health Systems, Inc. and Horizon Health Systems, Inc., in the form attached hereto as EXHIBIT F-1.

(f) Such UCC financing statements and amendments thereto (including to pay additional Tennessee Privilege Taxes) as may be required by the Banks.

(g) Evidence that Borrower has successfully completed an IPO that has resulted in net cash proceeds to the Borrower of $42,500,000.00.

5. EFFECTIVENESS OF AMENDMENT NO. 2. This Amendment No. 2 and the Exhibits attached hereto shall become effective at such time as (a) each of the conditions precedent set forth in Section 4.1 hereof shall have been satisfied, and (b) counterparts of this Amendment No. 2, executed and delivered by the Borrower, the Guarantors, the Banks and the Agent shall have been received by the Agent (or, alternatively, confirmation of the execution hereof by such parties shall have been received by the Agent). The date upon which the conditions described in clauses (a) and (b) of the foregoing sentence shall have been fulfilled is referred to herein as the "Amendment No. 2 Effective Date".

6. CLOSING. The Closing under this Amendment No. 2 shall occur on the Amendment Effective Date at the offices of Boult, Cummings, Conners & Berry, PLC, 1 NationsBank Plaza, Nashville, Tennessee 37219, or such other

location as the parties may agree.

7. GOVERNING LAW, ETC. This Amendment No. 2 shall be governed by, and construed in accordance with, the laws of the State of Tennessee as provided in Section 10.9 of the Agreement, which Section is incorporated herein by reference and made a part hereof as though set forth in full herein.

8. SECTION TITLES AND TABLE OF CONTENTS. The Section Titles and Table of Contents contained in this Amendment No. 2 are and shall be without substantive meaning or content of any kind whatsoever and are not a part of the agreement among the parties hereto.

9. WAIVER OF JURY TRIAL. EACH PARTY HERETO, INCLUDING THE BORROWER, EACH SUBSIDIARY, THE BANKS, AND THE AGENT, HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE (TO THE EXTENT PERMITTED BY APPLICABLE LAWS) ANY RIGHTS THEY MAY HAVE TO A TRIAL BY JURY OF ANY DISPUTE ARISING UNDER, RELATING TO, OR CONNECTED WITH THIS AGREEMENT, THE COLLATERAL OR ANY OTHER AGREEMENT, INSTRUMENT OR DOCUMENT CONTEMPLATED HEREBY OR DELIVERED IN CONNECTION HEREWITH AND AGREE THAT ANY SUCH DISPUTE SHALL BE TRIED BEFORE A JUDGE SITTING WITHOUT A JURY. THIS PROVISION IS A MATERIAL INDUCEMENT FOR THE BANKS' AND THE AGENT ENTERING INTO THIS AGREEMENT.

10. COUNTERPARTS. This Amendment No. 2 may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same instrument.

11. AGREEMENT TO REMAIN IN EFFECT. Except as expressly provided herein, the Agreement and each other Collateral Document shall be and shall continue in full force and effect in accordance with its respective terms.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment No. 2 to be executed by their respective officers thereunto duly authorized, as of the date first above written.

AGENT	BORROWER
NATIONSBANK, N.A., as Agent	ACCREDO HEALTH, INCORPORATED
BY: /s/ Elizabeth Knox	BY: /s/ Joel Kimbrough
TITLE: Senior Vice President	TITLE: Senior Vice President and Chief Financial Officer

BANKS	GUARANTORS AND SUBSIDIARIES
NATIONSBANK, N.A.	SOUTHERN HEALTH SYSTEMS, INC.
BY: /s/ Elizabeth Knox	BY: /s/ Joel Kimbrough
TITLE: Senior Vice President	TITLE: Senior Vice President and Chief Financial Officer

FIRST TENNESSEE BANK NATIONAL ASSOCIATION

BY: /s/ Elizabeth Knox

TITLE: Senior Vice President

NOVA FACTOR, INC.

BY: /s/ Joel Kimbrough

TITLE: Senior Vice President and Chief Financial Officer

HORIZON HEALTH SYSTEMS, INC.

BY: /s/ Joel Kimbrough

TITLE: Senior Vice President and Chief Financial Officer

Exhibit 10.67

AMENDMENT ONE TO DISTRIBUTION & SERVICE AGREEMENT

This Amendment is made and entered into this 11th day of January, 1999 by and between Centocor, Inc. and its Affiliates ("Centocor") and Nova Factor, Inc. ("NFI").

WHEREAS, NFI and Centocor have entered into a Distribution and ServiceS Agreement dated August 28, 1998, and

WHEREAS, Centocor and NFI desire to amend the Distribution and Services Agreement effective August 28, 1998.

NOW THEREFORE, for and exchange of the mutual promises contained herein and for other good and valuable consideration, the receipt and adequacy of which is hereby acknowleged, the parties hereto agree as follows:

1. Effective August 28, 1998, Section 1.20 is deleted in its entirety and the following is substituted for and in the place thereof:

> 1.20 "SOP" shall mean those standard operating procedures which will be used by Nova Factor to provide certain services under this Agreement. In the event that Centocor should desire that the procedures used by NFI to provide services under this Agreement, be changed or modified, Centocor shall advise NFI and NFI and Centocor shall mutually agree on changes in the procedures used by NFI to provide services under the Agreement.

2. As amended, all terms and provisions of the Distribution and Services Agreement shall remain in full force and effect.

CENTOCOR, INC.

By: /s/ Barry Bazogamy

Title: Executive Director & Corporate Counsel

NOVA FACTOR, INC.

By: /s/ Thomas W. Bell

Title: Secretary

EXHIBIT 23.2

CONSENT OF INDEPENDENT AUDITORS

We consent to the reference to our firm under the caption "Experts" and to the use of our reports dated (i) August 12, 1998, except with respect to Notes 1, 2 and 3 as to which the date is March 21, 1999, with respect to the consolidated financial statements and schedule of Accredo Health, Incorporated, (ii) August 30, 1996 with respect to the financial statements and schedule of Nova Factor, Inc. (iii) July 30, 1998 with respect to the financial statements of Horizon Health Systems, Inc. (iv) August 21, 1998 with respect to the financial statements and schedule of Texas Health Pharmaceutical Resources and (v) March 19, 1999 with respect to the financial statements and schedule of Children's Memorial Home Hemophilia Services, in Amendment No. 4 to the Registration Statement (Form S-1 No. 333-62679) and related Prospectus of Accredo Health, Incorporated for the registration of 3,000,000 shares of its common stock.

/s/ Ernst & Young LLP

Memphis, Tennessee
March 24, 1999