

InfuSystem Holdings, Inc  
Form 10-Q  
November 12, 2013  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
**For the quarterly period ended September 30, 2013**

or

.. **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
**for the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number: 001-35020**

**INFUSYSTEM HOLDINGS, INC.**

**(Exact name of registrant as specified in its charter)**

**Delaware**  
**(State or Other Jurisdiction of**  
**Incorporation or Organization)**

**20-3341405**  
**(I.R.S. Employer**  
**Identification No.)**

**31700 Research Park Drive**

**Madison Heights, Michigan 48071**

**(Address of Principal Executive Offices including zip code)**

**(248) 291-1210**

**(Registrant's Telephone Number, Include Area Code)**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Securities Exchange Act.

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer  (Do not check if smaller reporting company)

Smaller reporting company

Indicated by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act). Yes  No

As of October 25, 2013, 22,085,031 shares of the registrant's common stock, par value \$0.0001 per share, were outstanding.

**Table of Contents**

**INFUSYSTEM HOLDINGS, INC. AND SUBSIDIARIES**

**Index to Form 10-Q**

	<b>PAGE</b>
<b>PART I- FINANCIAL INFORMATION</b>	
Item 1. <u>Financial Statements</u>	3
<u>Condensed Consolidated Balance Sheets as of September 30, 2013 and December 31, 2012</u>	3
<u>Condensed Consolidated Statements of Operations and Statements of Comprehensive Income (Loss) for the three and nine months ended September 30, 2013 and 2012</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2013 and 2012</u>	5
<u>Notes to Consolidated Financial Statements</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	12
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	16
Item 4. <u>Controls and Procedures</u>	16
<b>PART II- OTHER INFORMATION</b>	17
Item 1. <u>Legal Proceedings</u>	17
Item 1A. <u>Risk Factors</u>	17
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	17
Item 3. <u>Defaults upon Senior Securities</u>	18
Item 4. <u>Mine Safety Disclosures</u>	18
Item 5. <u>Other Information</u>	18
Item 6. <u>Exhibits</u>	19
<u>Signatures</u>	20

**Table of Contents****Item 1. Financial Statements****INFUSYSTEM HOLDINGS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

<i>(in thousands, except share and per share data)</i>	<b>September 30, 2013 (Unaudited)</b>	<b>December 31, 2012</b>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 908	\$ 2,326
Accounts receivable, less allowance for doubtful accounts of \$4,178 and \$3,136 at September 30, 2013 and December 31, 2012, respectively	9,291	8,511
Inventory	1,343	1,339
Other current assets	625	684
Deferred income taxes	1,986	1,971
<b>Total Current Assets</b>	<b>14,153</b>	<b>14,831</b>
Medical equipment held for sale or rental	2,995	2,626
Medical equipment in rental service, net of accumulated depreciation	14,941	13,071
Property & equipment, net of accumulated depreciation	813	867
Deferred debt issuance costs, net	1,972	2,362
Intangible assets, net	24,075	25,541
Deferred income taxes	17,259	17,806
Other assets	184	419
<b>Total Assets</b>	<b>\$ 76,392</b>	<b>\$ 77,523</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current Liabilities:		
Accounts payable	\$ 4,329	\$ 2,135
Accounts payable - related party	9	9
Current portion of long-term debt	3,239	3,953
Other current liabilities	2,824	4,098
<b>Total Current Liabilities</b>	<b>10,392</b>	<b>10,195</b>
Long-term debt, net of current portion	24,380	27,315
<b>Total Liabilities</b>	<b>34,772</b>	<b>37,510</b>
Stockholders Equity:		
Preferred stock, \$.0001 par value; authorized 1,000,000 shares; none issued		
Common stock, \$.0001 par value; authorized 200,000,000 shares; issued and outstanding 22,088,731 and 22,085,031, respectively, as of September 30, 2013 and 21,990,000 and 21,802,515, respectively, as of December 31, 2012	2	2
Additional paid-in capital	89,544	88,742

Edgar Filing: InfuSystem Holdings, Inc - Form 10-Q

Accumulated deficit		(47,926)	(48,731)
Total Stockholders Equity		41,620	40,013
Total Liabilities and Stockholders Equity		\$ 76,392	\$ 77,523

See accompanying notes to unaudited consolidated financial statements

**Table of Contents**

**INFUSYSTEM HOLDINGS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND**  
**STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
**(UNAUDITED)**

<i>(in thousands, except share and per share data)</i>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Net revenues:				
Rentals	\$ 14,493	\$ 13,025	\$ 41,556	\$ 38,903
Product Sales	1,247	1,150	3,547	3,692
Net revenues	15,740	14,175	45,103	42,595
Cost of revenues:				
Cost of revenues Product, service and supply costs	2,750	2,377	8,174	6,760
Cost of revenues Pump depreciation and disposals	1,650	1,601	4,836	4,928
Gross profit	11,340	10,197	32,093	30,907
Selling, general and administrative expenses:				
Provision for doubtful accounts	1,795	979	4,782	3,119
Amortization of intangibles	648	670	1,972	2,028
Selling and marketing	2,391	2,349	7,281	7,635
General and administrative	4,583	5,278	14,622	17,688
Total sales, general and administrative	9,417	9,276	28,657	30,470
Operating income	1,923	921	3,436	437
Other (expense) income:				
Interest expense	(838)	(971)	(2,636)	(2,235)
Loss on extinguishment of long term debt				(552)
Other (expense) income	(7)	(136)	329	(134)
Total other expense	(845)	(1,107)	(2,307)	(2,921)
Income (loss) before income taxes	1,078	(186)	1,129	(2,484)
Income tax (expense) benefit	(429)	219	(324)	774
Net income (loss)	\$ 649	\$ 33	\$ 805	\$ (1,710)
Net income (loss) per share:				
Basic	\$ 0.03	\$ 0.00	\$ 0.04	\$ (0.08)
Diluted	\$ 0.03	\$ 0.00	\$ 0.04	\$ (0.08)
Weighted average shares outstanding:				

Edgar Filing: InfuSystem Holdings, Inc - Form 10-Q

Basic	21,891,041	21,601,529	21,851,798	21,311,116
Diluted	22,075,532	21,827,365	22,043,998	21,311,116
<b>Comprehensive Income (Loss)</b>				
Net income (loss)	\$ 649	\$ 33	\$ 805	\$ (1,710)
Unrealized gain on interest rate swap, net of taxes				1
Reclassification of hedging losses, net of taxes				(111)
Comprehensive income (loss)	\$ 649	\$ 33	\$ 805	\$ (1,820)

See accompanying notes to unaudited consolidated financial statements

Table of Contents

**INFUSYSTEM HOLDINGS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**

<i>(in thousands)</i>	<b>Nine Months Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	\$ 4,765	\$ 5,834
<b>INVESTING ACTIVITIES</b>		
Purchase of medical equipment and property	(3,396)	(4,312)
Proceeds from sale of medical equipment and property	2,808	3,521
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	(588)	(791)
<b>FINANCING ACTIVITIES</b>		
Principal payments on bank loans, revolving credit facility and capital lease obligations	(27,912)	(6,747)
Cash proceeds from bank loans and revolving credit facility	22,395	2,500
Common stock repurchased to satisfy statutory withholding on stock based compensation	(78)	(131)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	(5,595)	(4,378)
<b>Net change in cash and cash equivalents</b>	(1,418)	665
<b>Cash and cash equivalents, beginning of period</b>	2,326	799
<b>Cash and cash equivalents, end of period</b>	\$ 908	\$ 1,464

See accompanying notes to unaudited consolidated financial statements



Table of Contents

**INFUSYSTEM HOLDINGS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**1. Basis of Presentation, Nature of Operations and Summary of Significant Accounting Policies**

InfuSystem Holdings, Inc. and Subsidiaries (the Company) is a leading provider of infusion pumps and related services. The Company services hospitals, oncology practices and other alternate site healthcare providers. Headquartered in Madison Heights, Michigan, the Company delivers local, field-based customer support, and also operates pump repair Centers of Excellence in Michigan, Kansas, California, and Ontario, Canada.

The accompanying consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) for interim financial information. Accordingly they do not include all of the information and notes required by U.S. GAAP for complete financial statements. The accompanying consolidated financial statements include all adjustments, composed of normal recurring adjustments, considered necessary by management to fairly state our results of operations, financial position and cash flows. The operating results for the interim periods are not necessarily indicative of results that may be expected for any other interim period or for the full year. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K and Form 10-K/A for the year ended December 31, 2012 (the 2012 Form 10-K) as filed with the SEC.

The consolidated financial statements are prepared in conformity with U.S. GAAP, which requires the use of estimates, judgments and assumptions that affect the amounts of assets and liabilities at the reporting date and the amounts of revenue and expenses in the periods presented. We believe that the accounting estimates employed are appropriate and the resulting balances are reasonable; however, due to the inherent uncertainties in making estimates, actual results could differ from the original estimates, requiring adjustments to these balances in future periods.

*Revised Presentation in the Consolidated Statements*

The Company both rents and sells medical equipment. In the first quarter of 2013, it came to management's attention that based on promulgation through recent comments from the Staff of the Securities and Exchange Commission, greater clarity and consistent classification should be provided in an entity's financial statements around such assets on the balance sheet and in the statement of cash flows. Specifically, the Staff believed that a company should clearly disclose (i) assets on the balance sheet; and (ii) cash flows when presenting cash flows in relation to, and in consideration of, its predominant source of revenues.

Management believes that the predominant source of revenues and cash flows from this medical equipment is from rentals and that most equipment that the Company has purchased is likely to be rented prior to being sold. The Company first revised its presentation of revenue and cash flows in its Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2013 and continues the revised presentation in this report.

While management has concluded that the effect of correcting previous errors in the Company's financial statements is not material, the Company reclassified certain amounts in its Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2012 to allow for appropriate comparisons between periods presented.

## Edgar Filing: InfuSystem Holdings, Inc - Form 10-Q

The effect of this reclassification to the Condensed Consolidated Statements of Cash Flows was to both reduce Net cash provided by operating activities and reduce Net cash used in investing activities by \$2.4 million for the nine months ended September 30, 2012.

The corrections and reclassifications described above did not affect the Company's condensed consolidated statements of operations or total cash flows for the nine months ended September 30, 2012.

**Table of Contents****2. Medical Equipment and Property**

Medical equipment consisted of the following as of September 30, 2013 and December 31, 2012 (in thousands):

	<b>September 30, 2013</b>	<b>December 31, 2012</b>
Medical Equipment in rental service	\$ 37,040	\$ 34,193
Medical Equipment in rental service - pump reserve	(103)	(270)
Accumulated depreciation	(21,996)	(20,852)
Medical Equipment in rental service, net of accumulated depreciation	14,941	13,071
Medical Equipment held for sale or rental	2,995	2,626
<b>Total</b>	<b>\$ 17,936</b>	<b>\$ 15,697</b>

Depreciation expense for medical equipment for the three and nine months ended September 30, 2013 was \$1.3 million and \$3.8 million, respectively, compared to \$1.3 million and \$4.0 million, respectively, for the same prior year periods. This was recorded in cost of revenues - pump depreciation and disposals.

Depreciation expense for property and equipment for the three months and nine months ended September 30, 2013 was \$0.1 million and \$0.2 million, respectively, compared to \$0.1 million and \$0.4 million, respectively, for the same prior year periods. This expense was recorded in general and administrative expenses.

Medical equipment held for sale or rental contains approximately \$0.7 million of pre-owned equipment received from a financial institution with such equipment coming off lease. Under the Company's arrangement with the financial institution, the Company does not pay for the equipment until it is sold. The liability for this equipment is shown in other current liabilities for a similar amount. The Company assumes risk of loss and accounts for the disposition of such equipment as a sale.

**3. Goodwill and Intangible Assets**

As of June 30, 2012, the goodwill balance was fully impaired with accumulated impairment charges of \$64.1 million.

**Table of Contents***Identifiable Intangible Assets*

The carrying amount and accumulated amortization of intangible assets as of September 30, 2013 and December 31, 2012 are as follows (in thousands):

	<b>September 30, 2013</b>		
	<b>Gross Assets</b>	<b>Accumulated Amortization</b>	<b>Net</b>
<b>Nonamortizable intangible assets</b>			
Trade names	\$ 2,000	\$	\$ 2,000
<b>Amortizable intangible assets</b>			
Physician and customer relationships	32,866	12,016	20,850
Non-competition agreements	848	576	272
Software	2,153	1,200	953
<b>Total nonamortizable and amortizable intangible assets</b>	<b>\$ 37,867</b>	<b>\$ 13,792</b>	<b>\$ 24,075</b>

	<b>December 31, 2012</b>		
	<b>Gross Assets</b>	<b>Accumulated Amortization</b>	<b>Net</b>
<b>Nonamortizable intangible assets</b>			
Trade names	\$ 2,000	\$	\$ 2,000
<b>Amortizable intangible assets</b>			
Physician and customer relationships	32,866	10,373	22,493
Non-competition agreements	848	441	407
Software	1,647	1,006	641
<b>Total nonamortizable and amortizable intangible assets</b>	<b>\$ 37,361</b>	<b>\$ 11,820</b>	<b>\$ 25,541</b>

Amortization expense for the three and nine months ended September 30, 2013 was \$0.6 million and \$2.0 million, respectively, compared to \$0.7 million and \$2.0 million, respectively, for the same prior year periods. Expected annual amortization expense for intangible assets recorded as of September 30, 2013, is as follows (in thousands):

	<b>10/1- 12/31/2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018 and thereafter</b>
Amortization expense	\$ 646	\$ 2,468	\$ 2,279	\$ 2,191	\$ 2,191	\$ 11,537

**4. Derivative Financial Instruments**

The Company used derivative instruments to manage interest rate risk and had previously designated an interest rate swap as a cash flow hedge of interest expense related to variable-rate long-term debt. To the extent this hedging

relationship was effective; changes in the fair value of the interest rate swap were recorded in Accumulated Other Comprehensive Loss ( AOCL ). Amounts were reclassified from AOCL to interest expense in the period when the hedged forecasted transaction affected earnings. The Company terminated this interest rate swap in December 2012 and had no outstanding derivative contracts as of December 31, 2012 or September 30, 2013.

As of September 30, 2012, the Company had a single interest rate swap liability outstanding with a fair market value of \$0.2 million, classified in Derivative Liabilities. This swap had a notional value at September 30, 2012 of \$13.4 million. The Company measured the fair value of its interest rate swap using Level 2 fair value measurement inputs which are observable in the market. There were no reclassifications among fair value measurement levels during the period ended September 30, 2012.

---

**Table of Contents**

During the three and nine month periods ended September 30, 2012, changes in the fair value of the derivative and reclassifications from AOCL to earnings were insignificant.

**5. Debt**

On November 30, 2012, the Company entered into a credit facility with Wells Fargo as Administrative Agent and PennantPark as Lenders. The facility consisted of a \$12.0 million Term Loan A (provided by Wells Fargo), a \$14.5 million Term Loan B (provided by PennantPark) and a \$10.0 million revolving credit facility, all of which mature on November 30, 2016, collectively (the Credit Facility). Interest on the term loan is payable at the Company's choice of LIBOR plus 7.25% (with a LIBOR floor of 2.0%) or the Wells Fargo prime rate plus 6.25% (with a prime rate floor of 3.0%). As of September 30, 2013, interest was payable at the Wells Fargo prime rate plus 6.25%, which equaled 9.50%.

The availability under the revolving Credit Facility is based upon the Company's eligible accounts receivable and eligible inventory. The Company had revolving loan gross availability of \$5.7 million and \$6.5 million, respectively, outstanding amounts on the Revolver included \$0.6 million and \$1.8 million and a reserve amount of \$0.1 million on a letter of credit at September 30, 2013, leaving approximately \$5.0 million and \$4.7 million available under the revolving Credit Facility as of September 30, 2013 and December 31, 2012, respectively.

The Credit Facility is collateralized by substantially all of the Company's assets and requires the Company to comply with covenants, including but not limited to, financial covenants relating to the satisfaction, on a quarterly and annual basis for the duration of the Credit Facility, of a total leverage ratio, a fixed charge coverage ratio and an annual limit on capital expenditures, including capital leases. As of September 30, 2013, the Company was in compliance with all such covenants and expects to be in compliance over the next 12 months.

In connection with the Credit Facility, the Company has the following covenant obligations for the duration of the facility:

- a) The fixed charge coverage ratio is calculated in accordance with the agreement governing the Credit Facility. This covenant was first required to be reported as of March 31, 2013 and has a minimum ratio at that time of 1.25:1. The required ratio varies quarterly for the remainder of the facility duration, from 1.25:1 to 2.00:1.
- b) The leverage ratio is calculated in accordance with the agreement governing the Credit Facility. This covenant was first required to be reported as of March 31, 2013 and has a maximum ratio at that time of 2.50:1. The required ratio varies quarterly for the remainder of the facility duration, from 2.50:1 to 1.00:1.
- c) The Credit Facility includes an annual limitation on capital expenditures in accordance with the agreement governing the Credit Facility that is \$5.5 million for each year ending December 31, 2013 through 2016.

The Company occasionally enters into capital leases to finance the purchase of ambulatory infusion pumps. The pumps are capitalized into medical equipment in rental service at their fair market value, which equals the value of the future minimum lease payments and are depreciated over the useful life of the pumps.

Edgar Filing: InfuSystem Holdings, Inc - Form 10-Q

The Company had approximate future maturities of loans and capital leases as of September 30, 2013 as follows (in thousands):

	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>Total</b>
Term Loans	\$ 600	\$ 2,400	\$ 2,400	\$ 19,300	\$ 24,700
Revolver				629	629
Capital Leases	203	852	828	407	2,290
Total	\$ 803	\$ 3,252	\$ 3,228	\$ 20,336	\$ 27,619

**Table of Contents**

The following is a breakdown of the Company's current and long-term debt as of September 30, 2013 and December 31, 2012 (in thousands):

	September 30, 2013				December 31, 2012		
	Current Portion of Long-Term Debt	Long- Term Debt	Total		Current Portion of Long- Term Debt	Long- Term Debt	Total
Term Loans	\$ 2,400	\$ 22,300	\$ 24,700	Term Loans	\$ 2,400	\$ 24,100	\$ 26,500
Revolver		629	629	Revolver		1,800	1,800
Capital Leases	839	1,451	2,290	Capital Leases	1,553	1,415	2,968
Total	\$ 3,239	\$ 24,380	\$ 27,619	Total	\$ 3,953	\$ 27,315	\$ 31,268

**6. Income Taxes**

Income tax expense was \$0.4 million and \$0.3 million for the three and nine months ended September 30, 2013 compared to \$0.2 million and \$0.8 million, respectively, of tax benefit for the same prior year periods. In computing its income tax provision, the Company estimates its effective income tax rate for the full year and applies that rate to income earned through the reporting period.

Management assesses the available positive and negative evidence to estimate if sufficient future taxable income will be generated to use the existing deferred tax assets. A significant piece of objective negative evidence evaluated was the cumulative loss incurred over the three-year period ended September 30, 2013. After adjusting the historical losses for non-recurring items, including the goodwill impairment, legal costs pertaining to events related to the Concerned Stockholder Group (as described in our 2012 Form 10-K), severance agreements and sufficient earnings history exists to support the realization of the deferred tax assets. This evidenced ability to generate sufficient taxable income is the basis for the Company's assessment that the deferred tax assets are more likely than not to be realized.

**7. Related Party Transactions**

During the three and nine months ended September 30, 2013 and 2012, the Company purchased pumps from Adepto Medical, a company that is controlled by a family member of Mr. Thomas Creal, an Executive Vice-President of the Company. Total purchases during each of the three and nine months ended September 30, 2013 and 2012 were less than \$0.1 million, respectively. Outstanding payables associated with the purchases were insignificant as of September 30, 2013 and December 31, 2012. The Company also sold pumps to Adepto. Total sales during the three months and nine months ended September 30, 2013 and 2012 were less than \$0.1 million. Outstanding receivables associated with the sales were less than \$0.1 million as of September 30, 2013 and December 31, 2012.

The Company also leases buildings from a company partially owned by Mr. Creal. Rent is paid monthly and totals approximately \$0.1 million annually.



**8. Commitments and Contingencies**

The Company is currently involved in legal proceedings arising out of the ordinary course and conduct of our business, the outcomes of which are not determinable at this time. In the normal course of business, the Company has insurance policies with independent insurance carriers to minimize our risk of potential losses. In the Company's opinion, any liability that might be incurred by us upon the resolution of these claims and lawsuits will not, in the aggregate, have a material effect on the Company's consolidated financial position, results of operations or cash flows.

**Table of Contents****9. Earnings Per Share**

Basic income (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted income (loss) per share assumes the issuance of potentially dilutive shares of common stock during the period. The following table reconciles the numerators and denominators of the basic and diluted income (loss) per share computations:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
<b>Numerator:</b>				
Net income (loss) ( <i>in thousands</i> )	\$ 649	\$ 33	\$ 805	\$ (1,710)
<b>Denominator:</b>				
Weighted average common shares outstanding:				
Basic	21,891,041	21,601,529	21,851,798	21,311,116
Dilutive effect of non-vested awards	184,491	225,836	192,200	
Diluted	22,075,532	21,827,365	22,043,998	21,311,116
<b>Net income (loss) per share:</b>				
Basic	\$ 0.03	\$ 0.00	\$ 0.04	\$ (0.08)
Diluted	\$ 0.03	\$ 0.00	\$ 0.04	\$ (0.08)

For the three and nine months ended September 30, 2013, vested stock options of 1.4 million and 1.3 million, respectively, were not included in the calculation because they would have an anti-dilutive effect. For the same prior year periods, 1.4 million in stock options and 0.7 million in unvested restricted shares, respectively, were not included in the calculation as they would have had an anti-dilutive effect.

During the second quarter of 2012, per the terms of a consulting agreement with former CEO, Mr. Sean McDevitt, the Company terminated 2.0 million shares of common stock potentially issuable under such agreement. Under the consulting agreement, Mr. McDevitt received a consulting fee of \$1.0 million, paid in shares of the Company's common stock. Shares issued to Mr. McDevitt were issued from the Company's 2007 Stock Incentive Plan, as amended (the Plan), valued at the average closing price of a share on the NYSE-MKT on the five trading days preceding the date of such issuance and totaled 0.5 million shares. In addition, the potentially issuable shares of 2.0 million were not part of Company's 2007 Stock Plan. As these 2.0 million shares were forfeited before the requisite service period was rendered, previously recognized compensation expense of \$1.3 million was reversed and recorded as a reduction of general and administrative expense during the three months ended June 30, 2012.

**10. Subsequent events**

On October 3, 2013, the Company issued a Current Report on Form 8-K that it had received offers to provide external infusion pumps and supplies in all nine of the Metropolitan Statistical Areas (MSAs) put out to bid by CMS as part of the announced timetable for Competitive Bidding Round 1 Recompete (RD1RC) from August 16, 2012. Since October 3, 2013, the Company has entered into contracts with CMS for these respective MSAs effective January 1, 2014. The impact of the reduced contract price from the current rates in these nine MSAs approximates \$250,000 annually based on current volume in those respective MSAs.



**Table of Contents**

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**Overview**

We are a leading provider of infusion pumps and related services. We service hospitals, oncology practices and other alternate site healthcare providers. Headquartered in Madison Heights, Michigan, we deliver local, field-based customer support, and also operate Centers of Excellence in Michigan, Kansas, California, and Ontario, Canada.

We supply electronic ambulatory infusion pumps and associated disposable supply kits to oncology practices, infusion clinics and hospital outpatient chemotherapy clinics. These pumps and supplies are utilized primarily by colorectal cancer patients who receive a standard of care treatment that utilizes continuous chemotherapy infusions delivered via electronic ambulatory infusion pumps. We obtain an assignment of insurance benefits from the patient, bill the insurance company or patient accordingly, and collect payment. We provide pump management services for the pumps and associated disposable supply kits to over 1,800 oncology practices in the United States, and retain title to the pumps during this process.

We sell or rent new and pre-owned pole mounted and ambulatory infusion pumps to, and provide biomedical recertification, maintenance and repair services for, oncology practices as well as other alternate site settings including home care and home infusion providers, skilled nursing facilities, pain centers and others. Additionally we sell, rent, service and repair new and pre-owned infusion pumps and other medical equipment. We also sell a variety of primary and secondary tubing, cassettes, catheters and other disposable items that are utilized with infusion pumps.

On January 3, 2013, we announced that our Board of Directors (the Board) had formally ended its assessment of potential strategic alternatives initiated by our prior management in conjunction with the investment banking firm, Houlihan Lokey. In addition, on January 3, 2013, we announced that Janet Skonieczny had been named Chief Operating Officer. For additional information, refer to our Current Report on Form 8-K filed with the SEC on January 3, 2013.

On February 12, 2013, Charles Gillman announced that he would not seek re-election to the Board at the Company's 2013 annual meeting of stockholders, which has been set for August 29, 2013. For additional information, refer to our Current Report on Form 8-K filed with the SEC on February 12, 2013.

On March 19, 2013, we announced that our Board had appointed Eric K. Steen as our Chief Executive Officer and a member of the Board, effective April 1, 2013 and in connection with Mr. Steen's appointment, Dilip Singh resigned his position as the Company's Interim Chief Executive Officer, effective April 1, 2013. Under the terms of the Company's Employment Agreement with Mr. Singh, dated February 9, 2013, Mr. Singh received a severance payment in the amount of \$83,333.33, which was paid to Mr. Singh in March 2013. For additional information, refer to our Current Report on Form 8-K filed with the SEC on March 19, 2013.

On March 30, 2013, Dilip Singh and Charles Gillman each resigned from the Board, effective April 1, 2013. Further, on March 31, 2013, the Board's Lead Independent Director, John Climaco, resigned from the Board, effective April 1, 2013. In recognition of Mr. Climaco's service to the Board as Lead Independent Director and Chairman of the Compensation Committee and his leadership of the Company's CEO search, the Compensation Committee approved a \$50,000 payment to Mr. Climaco. In lieu of appointing a new Lead Independent Director to succeed Mr. Climaco, the Board determined that its three independent directors, Messrs. Dreyer, Whitters and Yetter, would coordinate the activities of such Lead Independent Director position. For additional information, refer to our Current Report on Form 8-K filed with the SEC on April 2, 2013.

On May 13, 2013, Ryan Morris, the Executive Chairman of the Board, submitted a written request to the Board for access to limited non-public information for himself and his representatives relating to the exploration of a potential transaction (the Morris Request ). On May 14, 2013, the Board formed a special committee (the Special Committee ) to review and be responsible for these matters and considered and responded to the Morris Request (the Board Response ), indicating that it would allow Mr. Morris, his potential financing sources and other qualified potential bidders a limited period of time and access to the Company s management team to explore a potential offer for the Company. The Special Committee is comprised of the three independent members of the Board, Messrs. David Dreyer, Joseph Whitters and Wayne Yetter. On May 15, 2013, Mr. Morris provided a written response to the Board Response (the Morris Response ), and in connection therewith, took a voluntary leave of absence as the Company s Executive Chairman for the duration of the matters discussed in the letters. During this period, director Wayne Yetter served as the Board s non-executive Chairman of the Board and Mr. Morris remained on the Board and was compensated as a non-executive director. For additional information, refer to our Current Report on Form 8-K filed with the SEC on May 15, 2013.

On July 1, 2013, we entered into an employment agreement with Jonathan P. Foster, pursuant to which Mr. Foster would continue his service, on a permanent basis, as our Chief Financial Officer effective September 1, 2013. As previously disclosed, Mr. Foster has been serving as Chief Financial Officer since March 16, 2012 under a Consulting Agreement, as amended. For additional information, refer to our Current Report on Form 8-K filed with the SEC on July 8, 2013.

**Table of Contents**

On July 17, 2013, Ryan Morris, a member of our Board, delivered a letter to the Special Committee regarding a good faith indication of interest by Meson Capital Partners LP and Mr. Morris to acquire the Company for between \$1.85 and \$2.00 per share in cash (the *Morris Letter* ). On July 18, 2013, the Special Committee considered the *Morris Letter* and issued a written response (the *Special Committee Response* ). The Special Committee believed that the management team, under the leadership of the Company's new CEO, Eric Steen, will meet the challenges presented by the Center for Medicare and Medicaid Services ( *CMS* ) competitive bidding and will develop new opportunities for growth creating value for shareholders. The Special Committee continued to believe that the value of the Company was above the proposed offer range of \$1.85 to \$2.00 per share. However, the Special Committee was prepared to agree to a reasonable period of exclusivity for due diligence and dialogue to better understand and address Mr. Morris concerns regarding future risks and to help him to potentially increase the value of his proposal. In addition, the Special Committee requested confirmation of Mr. Morris's stated financing sources to support his proposal. For additional information, refer to our Current Report on Form 8-K filed with the SEC on July 19, 2013.

On July 31, 2013, the Board issued an Open Letter to Shareholders. In this letter, the Board announced the following: 1) The Special Committee of the Company, after long and careful deliberation and in the best interest of all shareholders, terminated the consideration of a potential sale of the Company; 2) Following thorough discussions with the Special Committee through the Company's investment banking firm, Houlihan Lokey, Mr. Morris and his potential financing partners did not accept the offer made by the Special Committee in its *Special Committee Response*; 3) As such, the Board unanimously consented to disband the Special Committee; 4) Effective immediately, Wayne Yetter, while remaining an independent Board member, stepped down as Chairman of the Board and Ryan Morris resumed his position as Executive Chairman. For additional information, refer to our Current Report on Form 8-K filed with the SEC on July 31, 2013.

On August 14, 2013, the Board approved a series of amendments to the Company's Amended and Restated 2007 Stock Incentive Plan (the *2007 Plan* ). First, the amendments provide that the Board's Compensation Committee will determine the exercise price of any stock options or stock appreciation rights issued under the 2007 Plan, which exercise price must be at or above the current market value for the Company's common stock on the date of grant. The market value of a Share is defined as the average closing price of the Company's common stock on its principal stock exchange or, as applicable, the average mean of the closing bid and asked prices quoted on the principal market system for the Company's stock for the five (5) most recent trading days prior to the date of grant. Second, the 2007 Plan has been amended to specify that, except in connection with a reorganization, share split, recapitalization, merger or other similar corporate event, outstanding stock options or stock appreciation rights may not be repriced nor exchanged for either cash or a substitute award under the 2007 Plan with a lower, or no, exercise price without stockholder approval. Third, the amendments provide that restricted stock awards granted under the 2007 Plan from and after the date of such amendment will reduce the total number of shares remaining available for the Company to grant under the Plan at a rate of two shares per one restricted share granted, and other awards will reduce the number of shares remaining at a rate of one share to one share under the award. Finally, the amendments expressly provide that each 2007 Plan participant is responsible for his/her own tax obligations in respect of awards under the 2007 Plan, and that the Company will not reimburse the participant for any such taxes. Further, the Plan now specifies that no stock options or other 2007 Plan awards may be issued to a participant in order to cover all or any portion of a participant's exercise price or tax withholding obligations (i.e., *tax gross-ups* ) in respect of awards under the 2007 Plan. For additional information and for a complete copy of the 2007 Plan, as amended, refer to our Current Report on Form 8-K filed with the SEC (the *2007 Plan 8-K* ) on August 15, 2013.

On October 3, 2013, we issued a Current Report on Form 8-K that we had received offers to provide external infusion pumps and supplies in all nine of the Metropolitan Statistical Areas ( *MSAs* ) put out to bid by *CMS* as part of the announced timetable for Competitive Bidding Round 1 Reopen ( *RD1RC* ) from August 16, 2012. Since October 3, 2013, we have entered into contracts with *CMS* for these respective *MSAs* effective January 1, 2014. The impact of

the reduced contract price from the current rates in these nine MSAs approximates \$250,000 annually based on current volume in those respective MSAs.

During this year, we felt the impact of the sequestration order approved by the President of United States on March 1, 2013, which effects Medicare payments, reducing revenue quarterly by less than \$0.1 million since that date. In the absence of any bipartisan agreement in the federal government with respect to the sequestration order generally or relief from sequestration applicable to Medicare payments, this reduction will continue. In addition, the recent federal government shutdown in October 2013 had no impact on our business.

### **InfuSystem Holdings, Inc. Results of Operations for the three and nine months ended September 30, 2013 compared to the three and nine months ended September 30, 2012**

#### *Revenues*

Our revenue for the quarter ended September 30, 2013 was \$15.7 million, an 11% increase, compared to \$14.2 million for the quarter ended September 30, 2012. This increase was primarily driven by an 11% increase in rental revenue compared to the same period in the prior year. For the nine months ended September 30, 2013 revenue was \$45.1 million compared to \$42.6 million for the same period ended September 30, 2012, a 6% increase over prior year. Again, this increase was driven by a 7% increase in rental revenue compared to the same period in the prior year. Sales revenue was up 8% from prior year for the third quarter and down approximately 4% year-to-date from prior year comparable periods. Management has been focused on reversing that downward trend in sales which was successful in the third quarter of 2013.

The increase in rental revenues are primarily related to the addition of larger customers, increased penetration into our existing customer accounts, the increase in the colorectal cancer and other cancer patients treated with the Company's services and the continuation of the revision by a major group of third party payors in their claims processing guidelines. Additionally, since September 30, 2012, the Company has added another 18 plans under contract, the vast majority of which will positively impact revenue. Such strengths are being offset, by a one-time delay in the billings caused by the requirement by certain payors of additional paperwork in the first quarter of 2013 and an increase in unbilled revenue since December 31, 2012. Revenues in the second quarter were impacted significantly due to a delay in processing paperwork both in the field and in-house. Corrections and a reduction in pending billings occurred in the current quarter and further correction and reduction are still expected by year-end 2013. Also during this year, we felt the impact of the sequestration from March 2013, with a reduction of revenue by less than \$0.1 million since that date.

#### *Gross Profit*

Gross profit for the quarter ended September 30, 2013 was \$11.3 million, an increase of 11% compared to \$10.2 million for the quarter ended September 30, 2012. Gross profit, as a percentage of revenues, represented 72% for the quarter ended September 30, 2013 and 2012. Gross profit for the nine months ended September 30, 2013 was \$32.1 million compared to \$30.9 million for the same period in 2012. Gross profit, as a percentage of revenues, represented 71% and 73% for the nine months ended September 30, 2013 and 2012, respectively. The decrease as a percentage of revenue for the nine month period compared to the same prior year period is primarily related to a decrease in rental gross margins from direct pay customers.

---

**Table of Contents***Provision for Doubtful Accounts*

Provision for doubtful accounts for the quarter ended September 30, 2013 and 2012 was \$1.8 million and \$1.0 million, respectively. The provision for doubtful accounts was 11% of revenues for the quarter ended September 30, 2013 compared to 7% for the same period in the prior year. Provision for doubtful accounts for the nine months ended September 30, 2013 and 2012 was \$4.8 million and \$3.1 million, respectively, an increase of 53% in 2013. This increase in the provision for doubtful accounts can be mainly attributed to a major group of third party payors that revised their claim processing guidelines at the end of 2012 that affected all durable medical equipment DME providers. Prior to the change, DME providers submitted claims to their home plan and the claims were processed in-network. Since the change in guidelines, DME providers are now required to submit their claims to the payor in the state where services were initiated. If the DME provider is not a participating provider with that specific payor, the claim is treated as out-of-network and the patient will incur higher costs. Therefore, we must collect a higher portion of reimbursement directly from patients, which creates an increased collection risk. This payor's association selected us as a preferred provider, which will help us in securing contracts in areas currently out-of-network. As a direct result of this selection, five states have new contracts under this agreement.

*Amortization of Intangible Assets*

Amortization of intangible assets for the quarter ended September 30, 2013 was \$0.6 million, compared to \$0.7 million for the same prior year period. Amortization of intangible assets for the nine months ended September 30, 2013 was \$2.0 million, consistent with the nine months ended September 30, 2012.

*Selling and Marketing Expenses*

During the quarter ended September 30, 2013, selling and marketing expenses was \$2.4 million, compared to \$2.3 million for the same quarter ended September 30, 2012. For the nine months ended September 30, 2013, selling and marketing expenses was \$7.3 million, a 5% decrease, compared to \$7.6 million for the same period in the prior year. The decrease in selling and marketing expenses for the nine month period was mainly attributed to lower travel, entertainment and salaries and commissions. Selling and marketing expenses during these periods consisted of sales salaries, commissions and associated fringe benefit and payroll-related items, marketing, share-based compensation, travel and entertainment and other miscellaneous expenses.

*General and Administrative Expenses*

During the quarter ended September 30, 2013, general and administrative ( G&A ) expenses was \$4.6 million, a decrease of \$0.7 million, or 13%, compared to \$5.3 million during the same period in 2012. The decrease was primarily attributed to a reduction in prior year professional fees of \$0.3 million pertaining to additional legal and outside service fees as a result of the special meeting and changes in the composition of the Board of Directors and current year reductions of \$0.4 million in other general and administrative cost savings.

During the nine months ended September 30, 2013, general and administrative expenses were \$14.6 million compared to \$17.7 million for the same nine month period in 2012. The decrease between these periods was primarily related to a reduction in depreciation of \$0.4 million in the current year period; prior year costs for professional service and other costs for the Concerned Stockholder Group, which totaled approximately \$2.3 million; severance payments for a former CEO amounted to \$1.0 million; \$0.6 million was recorded during the three months ended March 31, 2012 for retention payments to key employees partially offset by \$1.3 million of previously recognized stock compensation expense that was reversed due to the forfeiture and failure to meet the requisite service period.



*Interest Expenses*

During the quarter ended September 30, 2013, we recorded interest expense of \$0.8 million compared to \$1.0 million for the quarter ended September 30, 2012. This decrease was mainly attributed to a net decrease of approximately \$0.2 million, of which interest expense decreased \$0.5 million as a result of costs pertaining to the monthly ticking fee in 2012 equal to 1% of the aggregate amount outstanding partially offset by an increase in interest expense of \$0.3 million as a result of our new debt facility. For the nine months ended September 30, 2013, we recorded interest expense of \$2.6 million compared to \$2.2 million in the same prior year period, which included \$0.5 million as a result of costs pertaining to the monthly ticking fee in 2012 equal to 1% of the aggregate amount outstanding. The remaining increase of \$0.9 million was primarily related to higher interest rates due to our new credit agreement.

## **Table of Contents**

### *Loss on Extinguishment of Long Term Debt*

During the prior year nine months ended September 30, 2012, \$0.3 million of previously capitalized debt issuance costs and \$0.3 million of certain payments made to secure the Fifth Amendment were recognized as a loss on extinguishment of debt.

### *Other (Expense) Income*

Other expense for the quarter ended September 30, 2013 decreased by \$0.1 million compared to the same prior period due to the expiration of a tax liability in the prior year period. Other income during the nine months ended September 30, 2013 increased to \$0.3 million from an expense of \$0.1 million in the same prior year period. This increase of \$0.4 million was a result of receiving \$0.3 million in proceeds in the current year period when a mutual insurance company we maintained a policy with was acquired and cash payments were disbursed to eligible members and the expiration of a tax liability in the prior year period for \$0.1 million.

### *Income Taxes*

During the quarter ended September 30, 2013, we recorded an income tax expense of \$0.4 million compared to a tax benefit of \$0.2 million for the same period in the prior year. The tax expense was primarily due to the company generating pre-tax income compared to the same period in the prior year. For the nine months ended September 30, 2013, we recorded an income tax expense of \$0.3 million compared to a tax benefit of \$0.8 million for the same period in the prior year. This was due to our profitability on a year to date basis in 2013 and the aforementioned tax reversal.

## **Liquidity and Capital Resources**

As of September 30, 2013, we had cash or cash equivalents of \$0.9 million and \$5.0 million of availability on the Credit Facility compared to \$2.3 million of cash and cash equivalents and \$4.7 million of availability on the Credit Facility at December 31, 2012.

Cash generated by operating activities for the nine months ended September 30, 2013 was \$4.8 million compared to \$5.8 million for the nine months ended September 30, 2012. Although net income is significantly improved from a year ago, increases in accounts receivable are partially offsetting cash improvement at September 30, 2013 when compared to the prior year.

Cash used in investing activities for the nine months ended September 30, 2013 was \$0.6 million compared to \$0.8 million for the nine months ended September 30, 2012. The decrease in cash used is primarily related to a decrease in the number of pumps being purchased this year compared to the same period last year. This amount was offset by a decrease in the amount of pumps being sold this year compared to last year and by an increase in the investment in information technology systems by approximately \$0.5 million.

Cash used in financing activities for the nine months ended September 30, 2013 was \$5.6 million compared to \$4.4 million for the nine months ended September 30, 2012. This increase was primarily due to a \$1.8 million net increase in principle payments on the term loan, reductions to the revolver balance in addition to payments to retire some older capital leases during 2013.

Availability under the revolving Credit Facility is based upon the Company's eligible accounts receivable and eligible inventory. The Company had revolving loan gross availability of \$5.7 million and \$6.5 million, respectively,

outstanding amounts on the Revolver included \$0.6 million and \$1.8 million and a reserve amount of \$0.1 million on a letter of credit at September 30, 2013, leaving approximately \$5.0 million and \$4.7 million available under the revolving Credit Facility as of September 30, 2013 and December 31, 2012, respectively.

Correspondingly, total debt was \$27.6 million as of September 30, 2013 compared to \$31.3 million as of the end of 2012, a reduction of \$3.7 million.

The Credit Facility is collateralized by substantially all of the Company's assets and requires the Company to comply with covenants, including but not limited to, financial covenants relating to the satisfaction, on a quarterly and annual basis for the duration of the Credit Facility, of a total leverage ratio, a fixed charge coverage ratio and an annual limit on capital expenditures, including capital leases. As of September 30, 2013, the Company was in compliance with all such covenants and expects to be in compliance for the next 12 months.

**Table of Contents**

**Critical Accounting Policies and Estimates**

The consolidated financial statements are prepared in conformity with U.S. GAAP, which require the use of estimates, judgments and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses in the periods presented. We believe that the accounting estimates employed are appropriate and resulting balances are reasonable; however, due to inherent uncertainties in making estimates actual results could differ from the original estimates, requiring adjustments to these balances in future periods. The critical accounting estimates that affect the consolidated financial statements and the judgments and assumptions used are consistent with those described in the MD&A section in our 2012 Form 10-K.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

InfuSystem Holdings, Inc. is a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and is not required to provide the information required under this item.

**Item 4. Controls and Procedures**

**(a) Evaluation of Disclosure Controls and Procedures**

We maintain disclosure controls and procedures, (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act )) that are designed to ensure that information required to be disclosed in our reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal accounting and financial officer), as appropriate, to allow timely decisions regarding required financial disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that a control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, with a company have been detected.

As of the end of the period covered by this Quarterly Report on Form 10-Q, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2013. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that such disclosure controls and procedures as of September 30, 2013, were not effective due to a material weakness in our internal controls related to record-keeping of minutes of the meetings of the Board of Directors and its committees, identified during the fourth quarter of 2012, as described below. Notwithstanding this material weakness, based on additional procedures performed after its discovery, management believes that the financial statements included in this report fairly present in all material respects our financial condition, results of operations, and cash flows for the periods presented.

During the preparation of our Form 10-K for 2012, our management identified a material weakness in the Company's internal control over financial reporting relating to the timely circulation and approval of minutes of the Board of

Directors and its committees and our stock-based compensation calculations for the year ended December 31, 2012. During 2012 a majority of the Company's Board of Directors and its CEO and CFO, were replaced and, in the transition, timely approval and record-keeping of board minutes were not performed. While minutes were contemporaneously recorded, this material weakness specifically related to the circulation and finalization of approvals of such minutes. Such timely circulation and approvals would have improved the timeliness and preparation of certain accounting analyses and related stock-based compensation calculations. Our management has reassessed its process with regard to Board of Directors and related committee minutes and our stock-based compensation calculations and has taken steps to assure that adequate procedures are in place on a go forward basis to remediate this weakness.

**(b) Change in Internal Control Over Financial Reporting**

Other than the changes described above, we have made no changes during the three months ended September 30, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

---

Table of Contents

**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**

We are not involved in any legal proceedings, the outcome of which we believe would be material to our financial condition or results of operations.

**Item 1A. Risk Factors**

For information regarding factors that could affect our results of operations, financial condition and liquidity, refer to the section titled "Risk Factors" in Part I, Item 1A of our 2012 Form 10-K. Except as noted below, there have been no material changes from the risk factors previously disclosed in our 2012 Form 10-K.

*Our business is substantially dependent on third-party reimbursement. Any change in the overall health care reimbursement system may adversely impact our business.*

Our revenues are substantially dependent on third-party reimbursement. We are paid directly by private insurers and governmental agencies, often on a fixed fee basis, for the use of continuous infusion equipment and related disposable supplies provided to patients. If the average fees allowable by private insurers or governmental agencies were reduced, the negative impact on revenues could have a material effect on our financial condition, results of operations and cash flows. Also, if amounts owed to us by patients and insurers are reduced or not paid on a timely basis, we may be required to increase our bad debt expense and/or decrease our revenues.

Changes in the health care reimbursement system often create financial incentives and disincentives that encourage or discourage the use of a particular type of product, therapy or clinical procedure. Market acceptance of continuous infusion therapy may be adversely affected by changes or trends within the health care reimbursement system. Changes to the health care reimbursement system that favor other technologies or treatment regimens that reduce reimbursements to providers or treatment facilities, including increasing competitive pressures from home health care and other companies that use our services, may adversely affect our ability to market our services profitably.

On August 16, 2012, the CMS announced the timetable for Competitive Bidding Round 1 Recompete ( RD1RC ), which includes a new product category for external infusion pumps and supplies affecting nine Metropolitan Statistical Areas ( MSAs ). As of the current schedule, any changes in reimbursement associated with RD1RC will not become effective until calendar year 2014. The Company submitted its bid in December 2012. Originally, CMS was to announce single payment amounts and begin the contracting process in the Spring of 2013. During the second quarter of 2013, this schedule, as reflected on CMS' website, was changed from Spring 2013 to Summer 2013 .

On October 3, 2013, the Company announced that it had received offers to provide external infusion pumps and supplies in all nine of the MSAs put out to bid by CMS in RD1RC. Since that date the Company has entered into contracts with CMS for these respective MSAs effective January 1, 2014. The impact of the reduced contract price from the current rates in these nine MSAs approximates \$250,000 annually based on current volume in those respective MSAs.

By 2016, CMS is scheduled to fully implement some form of competitive bidding. The impact of this 2016 schedule and RD1RC is not easily identifiable, is unclear at this time, and could, among many factors, negatively impact the Company's market share, negatively impact business with the Company's customers and other payors, and significantly

reduce revenue, earnings and cash flow.

*Any federal government shutdown or changes to sequestration may adversely impact our business.*

Our revenues are dependent on private insurers and governmental agencies. The impact of the sequestration order approved in March 2013 effects our Medicare payments. In the absence of any bipartisan agreement in the federal government with respect to the sequestration order or relief from sequestration applicable to Medicare payments, our revenue could be reduced. In addition, any federal government shutdown could also have an adverse impact on our business.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None.

**Table of Contents**

**Item 3. Defaults upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.



**Table of Contents**

**Item 6. Exhibits**

**Exhibits**

31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the  Sarbanes-Oxley Act of 2002
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the  Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

Table of Contents

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

INFUSYSTEM HOLDINGS, INC.

Date: November 12, 2013

/s/ Jonathan P. Foster  
Jonathan P. Foster  
Chief Financial Officer  
(Principal Financial Officer)