

InfuSystem Holdings, Inc  
Form 10-Q  
May 14, 2018

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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

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**FORM 10-Q**

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

**for the quarterly period ended March 31, 2018**

**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**

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**INFUSYSTEM HOLDINGS, INC.**

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

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**Delaware** **20-3341405**  
**(State or Other Jurisdiction of (I.R.S. Employer**  
**Incorporation or Organization) Identification No.)**

**31700 Research Park Drive**

**Madison Heights, Michigan 48071**

**(Address of Principal Executive Offices)**

**(248) 291-1210**

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

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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, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth 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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate 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 May 4, 2018, 22,762,691 shares of the registrant's common stock, par value \$0.0001 per share, were outstanding.

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**INFUSYSTEM HOLDINGS, INC. AND SUBSIDIARIES**

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Table of Contents**PART I – FINANCIAL INFORMATION****Item 1. Financial Statements****INFUSYSTEM HOLDINGS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(UNAUDITED)**

|                                                                                                                                        | <b>As of<br/>March<br/>31,<br/>2018</b> | <b>December<br/>31,<br/>2017</b> |
|----------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------|----------------------------------|
| <i>(in thousands, except share data)</i>                                                                                               |                                         |                                  |
| <b>ASSETS</b>                                                                                                                          |                                         |                                  |
| Current assets:                                                                                                                        |                                         |                                  |
| Cash and cash equivalents                                                                                                              | \$ 1,530                                | \$ 3,469                         |
| Accounts receivable, less allowance for doubtful accounts of \$6,420 and \$6,514 at March 31, 2018 and December 31, 2017, respectively | 11,087                                  | 11,385                           |
| Inventories                                                                                                                            | 2,063                                   | 1,764                            |
| Other current assets                                                                                                                   | 1,114                                   | 1,049                            |
| Total current assets                                                                                                                   | 15,794                                  | 17,667                           |
| Medical equipment held for sale or rental                                                                                              | 1,481                                   | 1,567                            |
| Medical equipment in rental service, net of accumulated depreciation                                                                   | 22,681                                  | 23,369                           |
| Property & equipment, net of accumulated depreciation                                                                                  | 1,546                                   | 1,633                            |
| Intangible assets, net                                                                                                                 | 23,327                                  | 24,514                           |
| Other assets                                                                                                                           | 136                                     | 131                              |
| Total assets                                                                                                                           | \$ 64,965                               | \$ 68,881                        |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                                            |                                         |                                  |
| Current liabilities:                                                                                                                   |                                         |                                  |
| Accounts payable                                                                                                                       | \$ 5,545                                | \$ 5,516                         |
| Capital lease liability, current                                                                                                       | 389                                     | 505                              |
| Current portion of long-term debt                                                                                                      | 3,039                                   | 3,039                            |
| Other current liabilities                                                                                                              | 1,935                                   | 3,414                            |
| Total current liabilities                                                                                                              | 10,908                                  | 12,474                           |
| Long-term debt, net of current portion                                                                                                 | 22,719                                  | 25,352                           |
| Capital lease liability, long-term                                                                                                     | -                                       | 33                               |
| Deferred income taxes                                                                                                                  | 86                                      | 62                               |
| Other long-term liabilities                                                                                                            | 20                                      | 7                                |
| Total liabilities                                                                                                                      | 33,733                                  | 37,928                           |
| Stockholders' equity:                                                                                                                  |                                         |                                  |

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|                                                                                                                                                                                                                           |          |           |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|-----------|
| 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 23,003,435 and 22,773,511, respectively, as of March 31, 2018 and 22,978,398 and 22,780,738, respectively, as of December 31, 2017 | 2        | 2         |
| Additional paid-in capital                                                                                                                                                                                                | 92,659   | 92,584    |
| Retained deficit                                                                                                                                                                                                          | (61,429) | (61,633 ) |
| Total stockholders' equity                                                                                                                                                                                                | 31,232   | 30,953    |
| Total liabilities and stockholders' equity                                                                                                                                                                                | \$64,965 | \$ 68,881 |

See  
 accompanying  
 notes to  
 unaudited  
 condensed  
 consolidated  
 financial  
 statements.

Table of Contents**INFUSYSTEM HOLDINGS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(UNAUDITED)**

| <i><b>(in thousands, except share and per share data)</b></i> | <b>Three Months Ended</b> |             |
|---------------------------------------------------------------|---------------------------|-------------|
|                                                               | <b>March 31</b>           |             |
|                                                               | <b>2018</b>               | <b>2017</b> |
| Net revenues:                                                 |                           |             |
| Rentals                                                       | \$ 14,421                 | \$ 15,137   |
| Product sales                                                 | 2,062                     | 2,517       |
| Net revenues                                                  | 16,483                    | 17,654      |
| Cost of revenues:                                             |                           |             |
| Cost of revenues — Product, service and supply costs          | 4,479                     | 4,536       |
| Cost of revenues — Pump depreciation and disposals            | 1,931                     | 2,469       |
| Gross profit                                                  | 10,073                    | 10,649      |
| Selling, general and administrative expenses:                 |                           |             |
| Provision for doubtful accounts                               | -                         | 1,856       |
| Amortization of intangibles                                   | 1,187                     | 1,411       |
| Selling and marketing                                         | 2,301                     | 2,886       |
| General and administrative                                    | 5,997                     | 6,465       |
| Total selling, general and administrative                     | 9,485                     | 12,618      |
| Operating income (loss)                                       | 588                       | (1,969 )    |
| Other expense:                                                |                           |             |
| Interest expense                                              | (315 )                    | (328 )      |
| Other expense                                                 | (11 )                     | (37 )       |
| Income (loss) before income taxes                             | 262                       | (2,334 )    |
| (Provision for) benefit from income taxes                     | (58 )                     | 856         |
| Net income (loss)                                             | \$ 204                    | \$ (1,478 ) |
| Net income (loss) per share:                                  |                           |             |
| Basic                                                         | \$ 0.01                   | \$ (0.07 )  |
| Diluted                                                       | 0.01                      | (0.07 )     |
| Weighted average shares outstanding:                          |                           |             |
| Basic                                                         | 22,799,221                | 22,680,562  |
| Diluted                                                       | 22,857,121                | 22,680,562  |

See  
 accompanying  
 notes to  
 unaudited  
 condensed



consolidated  
financial  
statements.

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|                                                                                                      | <b>Three Months<br/>Ended<br/>March 31</b> |             |
|------------------------------------------------------------------------------------------------------|--------------------------------------------|-------------|
| <i>(in thousands)</i>                                                                                | <b>2018</b>                                | <b>2017</b> |
| <b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>                                           | \$1,025                                    | \$(1,442)   |
| <b>INVESTING ACTIVITIES</b>                                                                          |                                            |             |
| Purchase of medical equipment and property                                                           | (1,213)                                    | (1,015)     |
| Proceeds from sale of medical equipment and property                                                 | 1,076                                      | 1,525       |
| <b>NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES</b>                                           | (137 )                                     | 510         |
| <b>FINANCING ACTIVITIES</b>                                                                          |                                            |             |
| Principal payments on revolving credit facility, term loans and capital lease obligations            | (2,790)                                    | (6,413)     |
| Cash proceeds from revolving credit facility                                                         | -                                          | 4,099       |
| Debt issuance costs                                                                                  | -                                          | (25 )       |
| Common stock repurchased to satisfy statutory withholding on employee stock based compensation plans | -                                          | (20 )       |
| Common stock repurchased as part of Repurchase Program                                               | (83 )                                      | -           |
| Cash proceeds from stock plans                                                                       | 46                                         | 87          |
| <b>NET CASH USED IN FINANCING ACTIVITIES</b>                                                         | (2,827)                                    | (2,272)     |
| <b>Net change in cash and cash equivalents</b>                                                       | (1,939)                                    | (3,204)     |
| <b>Cash and cash equivalents, beginning of period</b>                                                | 3,469                                      | 3,398       |
| <b>Cash and cash equivalents, end of period</b>                                                      | \$1,530                                    | \$194       |

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**INFUSYSTEM HOLDINGS, INC. AND SUBSIDIARIES**

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

The terms “InfuSystem”, the “Company”, “we”, “our” and “us” are used herein to refer to InfuSystem Holdings, Inc. and its subsidiaries. InfuSystem is a leading provider of infusion pumps and related services. The Company services hospitals, oncology practices and other alternative 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, Georgia and Ontario, Canada.

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) for interim financial information. Accordingly, the unaudited condensed consolidated financial statements do *not* include all of the information and notes required by U.S. Generally Accepted Accounting Principles (“GAAP”) for complete financial statements. The accompanying unaudited condensed consolidated financial statements include all adjustments, composed of normal recurring adjustments, considered necessary by management to fairly state the Company’s 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 unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended *December 31, 2017* as filed with the SEC.

The unaudited condensed consolidated financial statements are prepared in conformity with 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. The Company believes 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.

**2. Revenue Recognition**

### *Adoption of ASC 606*

Except for the changes below, we have consistently applied the accounting policies to all periods in these condensed consolidated financial statements.

On January 1, 2018 the Company adopted the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 606 - Revenue from Contracts with Customers (“ASC 606”) and concluded that, consistent with prior reporting, the Company has two separate revenue streams: rentals and product sales. The adoption of ASC 606 had no impact upon adoption on the Company’s net income for the first quarter of 2018. However, the adoption of ASC 606 requires certain customer concessions associated with rental revenues reported in accordance with ASC 605 - Revenue Recognition, previously reported in selling, general and administrative expenses as “provisions for doubtful accounts” to now be recorded as a reduction of net rental revenues as they are considered price concessions of the transaction price under the new revenue guidance. As ASC 606 was adopted on a modified retrospective method, prior quarters are not restated.

ASC 606 defines a five-step process to recognize revenues at the time and in an amount that reflects the consideration expected to be received for the performance obligations that have been provided. ASC 606 defines contracts as written, oral and through customary business practice. Under this definition, the Company considers contracts to be created at the time that the rental service is authorized or an order to purchase product is agreed upon regardless of whether or not there is a written contract.

### *Performance Obligations*

The Company has two separate and distinct performance obligations offered to its customers: a rental service performance obligation or a product sale performance obligation. These performance obligations are related to separate revenue streams and at no point are they combined into a single transaction.

The Company generates the majority of its revenue from the rental and servicing of infusion pumps to its customers and a minority of its revenue from product sales. Revenue related to rentals is recognized at the point in time that a patient concludes a treatment and the proper documentation has been received by the Company, or in certain arrangements, based on the number of pumps that a facility has onsite. Revenue related to product sales is recognized at the time that control of the product has been transferred to the customer; either at the time the product is shipped or the time the product has been received by the customer depending on the shipping terms. The Company does not commit to long-term contracts to sell customers a certain minimum quantity of products.



Table of Contents*Significant Judgments*

The Company employs certain significant judgments to estimate the dollar amount of revenue, and related concessions, allocated to the rental service and sale of products. These judgments include, among others, the estimation of variable consideration. Variable consideration, specifically related to the Company's third-party payor rental revenues, is estimated as a contractual allowance for commercial payors and implied customer concessions, which has been traditionally considered bad debt for self-pay customers. The estimates for variable consideration are based on historical collections with similar payors which provide a reasonable basis for estimating the variable portion of a transaction. The Company uses the "expected value" method to estimate the component of variable consideration, which is consistent with the expectations set forth in ASC 606. The Company doesn't believe that a significant reversal of revenue will occur in future periods because (i) there is no significant uncertainty about the amount of considerations that are expected to be collected based on collection history and (ii) the large number of sufficiently similar contracts allows the Company to adequately estimate the component of variable consideration.

*Financial Impact of ASC 606 Adoption*

The following table presents the impact of ASC 606 on the Condensed Consolidated Statements of Operations (unaudited) for the three months ended March 31, 2018 (in thousands):

|                                               | <b>Three Months Ended<br/>March 31, 2018</b> |                    |                                                                                           |
|-----------------------------------------------|----------------------------------------------|--------------------|-------------------------------------------------------------------------------------------|
|                                               | <b>As<br/>Reported</b>                       | <b>Adjustments</b> | <b>Pro-Forma<br/>as if<br/>Previous<br/>Accounting<br/>Guidance<br/>Was in<br/>Effect</b> |
| Net revenues:                                 |                                              |                    |                                                                                           |
| Rentals                                       | \$ 14,421                                    | \$ 1,904           | \$ 16,325                                                                                 |
| Net revenues                                  | 16,483                                       | 1,904              | 18,387                                                                                    |
| Gross profit                                  | 10,073                                       | 1,904              | 11,977                                                                                    |
| Selling, general and administrative expenses: |                                              |                    |                                                                                           |
| Provision for doubtful accounts               | -                                            | 1,904              | 1,904                                                                                     |
| Total selling, general and administrative     | \$9,485                                      | \$ 1,904           | \$ 11,389                                                                                 |



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The following table presents disaggregated revenue by offering type:

|                           | <b>Three Months Ended<br/>March 31, 2018</b> |
|---------------------------|----------------------------------------------|
| Third-Party Payor Rentals | 48.6%                                        |
| Direct Payor Rentals      | 38.9%                                        |
| Product Sales             | 12.5%                                        |
| Total - Net revenues      | 100.0%                                       |

**3. Medical Equipment**

Medical equipment is comprised of the following (in thousands):

|                                                    | <b>March<br/>31,<br/>2018</b> | <b>December<br/>31,<br/>2017</b> |
|----------------------------------------------------|-------------------------------|----------------------------------|
| Medical Equipment held for sale or rental          | \$1,481                       | \$ 1,567                         |
| Medical Equipment in rental service                | 58,044                        | 57,928                           |
| Medical Equipment in rental service - pump reserve | (462 )                        | (482 )                           |
| Accumulated depreciation                           | (34,901)                      | (34,077 )                        |
| Medical Equipment in rental service - net          | 22,681                        | 23,369                           |
| Total                                              | \$24,162                      | \$ 24,936                        |

Depreciation expense for medical equipment for the three months ended March 31, 2018 was \$1.5 million, compared to \$1.6 million for the same prior year period, which was recorded in “cost of revenues – pump depreciation and disposals,” for each period.



Table of Contents**4. Property and Equipment**

Property and equipment is comprised of the following (in thousands):

|                                    | <b>March 31, 2018</b> |                             |           | <b>December 31, 2017</b> |                             |           |
|------------------------------------|-----------------------|-----------------------------|-----------|--------------------------|-----------------------------|-----------|
|                                    | Gross<br>Assets       | Accumulated<br>Depreciation | Total     | Gross<br>Assets          | Accumulated<br>Depreciation | Total     |
| Furniture, fixtures, and equipment | \$3,845               | \$ (3,340                   | ) \$505   | \$3,824                  | \$ (3,277                   | ) \$547   |
| Automobiles                        | 118                   | (88                         | ) 30      | 118                      | (85                         | ) 33      |
| Leasehold improvements             | 2,187                 | (1,176                      | ) 1,011   | 2,187                    | (1,134                      | ) 1,053   |
| Total                              | \$6,150               | \$ (4,604                   | ) \$1,546 | \$6,129                  | \$ (4,496                   | ) \$1,633 |

Depreciation expense for property and equipment for the *three* months ended *March 31, 2018* and *2017* was *\$0.1* million. This expense was recorded in general and administrative expenses.

**5. Intangible Assets**

The carrying amount and accumulated amortization of intangible assets is comprised of the following (in thousands):

|                                      | <b>March 31, 2018</b> |                             |            | <b>December 31, 2017</b> |                             |            |
|--------------------------------------|-----------------------|-----------------------------|------------|--------------------------|-----------------------------|------------|
|                                      | Gross<br>Assets       | Accumulated<br>Amortization | Net        | Gross<br>Assets          | Accumulated<br>Amortization | Net        |
| Nonamortizable intangible assets:    |                       |                             |            |                          |                             |            |
| Trade names                          | \$2,000               | \$ -                        | \$2,000    | \$2,000                  | \$ -                        | \$2,000    |
| Amortizable intangible assets:       |                       |                             |            |                          |                             |            |
| Trade names                          | 23                    | (23                         | ) -        | 23                       | (23                         | ) -        |
| Physician and customer relationships | 36,534                | (22,394                     | ) 14,140   | 36,534                   | (21,801                     | ) 14,733   |
| Non-competition agreements           | 1,136                 | (1,131                      | ) 5        | 1,136                    | (1,125                      | ) 11       |
| Software                             | 11,230                | (4,048                      | ) 7,182    | 11,230                   | (3,460                      | ) 7,770    |
|                                      | \$50,923              | \$ (27,596                  | ) \$23,327 | \$50,923                 | \$ (26,409                  | ) \$24,514 |

Total nonamortizable and amortizable  
intangible assets

Amortization expense for the *three* months ended *March 31, 2018* was *\$1.2* million compared to *\$1.4* million for the *three* months ended *March 31, 2017*. Expected annual amortization expense for intangible assets recorded as of *March 31, 2017* is as follows (in thousands):

|                      | <b>4/1-<br/>12/31/2018</b> | <b>2019</b> | <b>2020</b> | <b>2021</b> | <b>2022</b> | <b>2023 and<br/>thereafter</b> | <b>Total</b> |
|----------------------|----------------------------|-------------|-------------|-------------|-------------|--------------------------------|--------------|
| Amortization expense | \$ 3,462                   | \$4,402     | \$4,285     | \$3,930     | \$2,051     | \$ 3,197                       | \$21,327     |

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### 6. Debt

As of March 31, 2018, the Company's term loan under its credit facility had a balance of \$25.9 million. The net availability under the revolving credit line under the credit facility is based upon our eligible accounts receivable and inventory and is computed as follows (in thousands):

|                    | <b>March<br/>31,<br/>2018</b> | <b>December<br/>31,<br/>2017</b> |
|--------------------|-------------------------------|----------------------------------|
| Revolver:          |                               |                                  |
| Gross availability | \$10,000                      | \$ 10,000                        |
| Outstanding draws  | -                             | -                                |
| Letter of credit   | (750 )                        | (750 )                           |
| Landlord reserves  | (68 )                         | (45 )                            |
| Net availability   | \$9,182                       | \$ 9,205                         |

The Company had future maturities of its term loan as of March 31, 2018 as follows (in thousands):

|                                              | <b>2018</b> | <b>2019</b> | <b>2020</b> | <b>2021</b> | <b>Total</b> |
|----------------------------------------------|-------------|-------------|-------------|-------------|--------------|
| Term Loan                                    | \$2,300     | \$3,067     | \$3,067     | \$17,436    | \$25,870     |
| Unamortized value of the debt issuance costs | (22 )       | (30 )       | (30 )       | (30 )       | (112 )       |
| Total                                        | \$2,278     | \$3,037     | \$3,037     | \$17,406    | \$25,758     |

The following is a breakdown of the Company's current and long-term debt as follows (in thousands):

| <b>March 31, 2018</b>  | <b>December 31, 2017</b> |
|------------------------|--------------------------|
| <b>Current</b>         | <b>Current</b>           |
| <b>Long-Term</b>       | <b>Long-Term</b>         |
| <b>Total</b>           | <b>Total</b>             |
| <b>Portion of Debt</b> | <b>Portion of Debt</b>   |
| <b>Long-Term</b>       | <b>Long-Term</b>         |
| <b>Debt</b>            | <b>Debt</b>              |

|                                              |          |           |           |                                              | <b>Term<br/>Debt</b> |           |           |  |
|----------------------------------------------|----------|-----------|-----------|----------------------------------------------|----------------------|-----------|-----------|--|
| Term Loan                                    | \$ 3,067 | \$ 22,803 | \$ 25,870 | Term Loan                                    | \$ 3,067             | \$ 25,444 | \$ 28,511 |  |
| Unamortized value of the debt issuance costs | (28 )    | (84 )     | (112 )    | Unamortized value of the debt issuance costs | (28 )                | (92 )     | (120 )    |  |
| Total                                        | \$ 3,039 | \$ 22,719 | \$ 25,758 | Total                                        | \$ 3,039             | \$ 25,352 | \$ 28,391 |  |

As of March 31, 2018, interest on the credit facility is payable at our option as a (i) Eurodollar Loan, which bears interest at a per annum rate equal to the applicable 30-day London Interbank Offered Rate (“LIBOR”) plus an applicable margin ranging from 2.00% to 3.00% or (ii) CB Floating Rate (“CBFR”) Loan, which bears interest at a per annum rate equal to the greater of (a) the lender’s prime rate or (b) LIBOR plus 2.50%, in each case, plus a margin ranging from -1.00% to 0.25%. The actual rate at March 31, 2018 was 4.63% (LIBOR of 1.88% plus 2.75%).

As of March 31, 2018, we were in compliance with all debt related covenants under the credit facility.

## 7. Income Taxes

During the three months ended March 31, 2018, the Company recorded expense provision for income taxes of \$0.1 million. The income tax provision relates principally to the Company’s state and local taxes and foreign operations in Canada. The Company recorded a benefit from income taxes of \$0.9 million for the same prior year period.

The Company’s realization of its deferred tax assets is dependent upon many factors, including, but not limited to, the Company’s ability to generate sufficient taxable income. 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. The Company’s management has determined that it is more likely than not that the Company will not recognize the benefits of its federal and state deferred tax assets. Accordingly, the Company had a full valuation allowance for all deferred tax assets at March 31, 2018 and December 31, 2017.

In December 2017, the Tax Cuts and Jobs Act (the “2017 Tax Act”) was enacted. The 2017 Tax Act includes many changes to existing U.S. tax laws that impact the Company, most notably a reduction of the U.S. corporate income tax rate from 35% to 21% for tax years beginning after December 31, 2017. The 2017 Tax Act also provides for a one-time transition tax on certain foreign earnings and the acceleration of depreciation for certain assets placed into service after September 27, 2017 as well as prospective changes beginning in 2018, including repeal of the domestic manufacturing deduction, acceleration of tax revenue recognition, capitalization of research and development expenditures, additional limitations on executive compensation and limitations on the deductibility of interest.

The Company recognized the income tax effects of the 2017 Tax Act in its 2017 financial statements in accordance with Staff Accounting Bulletin No. 118, which provides SEC staff guidance for the application of ASC Topic 740 - Income Taxes ("ASC 740"), in the reporting period in which the 2017 Tax Act was signed into law. As such, the Company's financial results reflect the income tax effects of the 2017 Tax Act for which the accounting under ASC 740 is complete and provisional amounts for those specific income tax effects of the 2017 Tax Act for which the accounting under ASC 740 is incomplete but a reasonable estimate could be determined. The ultimate impact of the 2017 Tax Act on our financial statements and related disclosures for 2018 and beyond may differ from our current provisional amounts, possibly materially, due to, among other things, changes in interpretations and assumptions we have made, guidance that may be issued and other actions we may take as a result of the 2017 Tax Act that differ from those presently contemplated.

As of March 31, 2018, the Company had not yet completed its accounting for all of the tax effects of the enactment of the 2017 Tax Act; however, the Company has made a reasonable estimate of the effects on its existing deferred tax balances. The Company will continue to refine its calculations as additional analysis is completed. The Company expects that any additional changes will be offset by a corresponding increase or decrease in the Company's valuation allowance.

## **8. Commitments, Contingencies and Litigation**

From time to time in the ordinary course of its business, the Company may be involved in legal proceedings, the outcomes of which may not be determinable. The results of litigation are inherently unpredictable. Any claims against the Company, whether meritorious or not, could be time consuming, result in costly litigation, require significant amounts of management time and result in diversion of significant resources. The Company is not able to estimate an aggregate amount or range of reasonably possible losses for those legal matters for which losses are not probable and estimable, primarily for the following reasons: (i) many of the relevant legal proceedings are in preliminary stages and, until such proceedings develop further, there is often uncertainty regarding the relevant facts and circumstances at issue and potential liability; and (ii) many of these proceedings involve matters of which the outcomes are inherently difficult to predict. The Company has insurance policies covering potential losses where such coverage is cost effective.

On *January 29, 2018*, the Company received notice that the U.S. District Court for the Central District of California (the "Court") (Case No. 2:16-cv-08295-ODW) issued an order dismissing, with prejudice, a putative class-active lawsuit against the Company. The dismissal relates to an action brought on *November 8, 2016* by a purported shareholder of the Company against the Company and *two* individual defendants: Eric Steen, the Company's former Chief Executive Officer, President and Director; and Jonathan Foster, the Company's former Chief Financial Officer. The complaint asserted claims against all defendants under the antifraud provisions of the federal securities laws and against Messrs. Steen and Foster as control persons. On *June 19, 2017*, the Company and all defendants filed a Motion to Dismiss the amended complaint. On *December 15, 2017*, the Court dismissed the plaintiffs' *first* amendment to the class action

compliant (“FAC”), with leave to amend. On *December 20, 2017*, the parties stipulated, and the Court extended, the plaintiffs time to amend the FAC up to *January 19, 2018*. As of *January 19, 2018*, the plaintiff never filed an amended complaint and the Court dismissed the lawsuit with prejudice on *January 29, 2018*. On *February 28, 2018*, the plaintiff filed a notice of appeal, on the motion to dismiss, to the *9th* Circuit Court of Appeals.

The Company is not involved in any legal proceedings that the Company believes could have a material effect on the Company’s financial condition, results of operations or cash flows at this time.

## 9. Earnings (Loss) 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<br/>March 31</b> |             |
|---------------------------------------------|----------------------------------------|-------------|
|                                             | <b>2018</b>                            | <b>2017</b> |
| Numerator:                                  |                                        |             |
| Net income (loss) (in thousands)            | \$204                                  | \$(1,478 )  |
| Denominator:                                |                                        |             |
| Weighted average common shares outstanding: |                                        |             |
| Basic                                       | 22,799,221                             | 22,680,562  |
| Dilutive effect of non-vested awards        | 57,900                                 | -           |
| Diluted                                     | 22,857,121                             | 22,680,562  |
| Net income (loss) per share:                |                                        |             |
| Basic                                       | \$0.01                                 | \$(0.07 )   |
| Diluted                                     | \$0.01                                 | \$(0.07 )   |

For the *three* months ended *March 31, 2018*, 0.3 million of stock options were *not* included in the calculation because they would have an anti-dilutive effect. For the *three* months ended *March 31, 2017*, 0.6 million of stock options were *not* included in the calculation because they would have an anti-dilutive effect.

## 10. Leases

The Company leases office space, service facility centers and equipment under non-cancelable capital and operating lease arrangements. The Company periodically enters into capital leases to finance the purchase of ambulatory infusion pumps (“Pump Assets”). The Pumps Assets 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. The weighted average interest rate under capital leases was 3.7% as of March 31, 2018. The leases for office space and service facility centers used in the Company’s logistics operations are operating leases. In most cases, the Company expects its facility leases will be renewed or replaced by other leases in the ordinary course of business.

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Future minimum rental payments pursuant to leases that have an initial or remaining non-cancelable lease term in excess of *one* year as of *March 31, 2018* are as follows (in thousands):

|                                           | Capital | Operating | Total    |
|-------------------------------------------|---------|-----------|----------|
|                                           | Leases  | Leases    |          |
| 2018                                      | \$ 361  | \$ 1,019  | \$ 1,380 |
| 2019                                      | 33      | 1,263     | 1,296    |
| 2020                                      | -       | 733       | 733      |
| 2021                                      | -       | 219       | 219      |
| 2022                                      | -       | 229       | 229      |
| Thereafter                                | -       | 841       | 841      |
| Total required payments                   | 394     | \$ 4,304  | \$ 4,698 |
| Less amounts representing interest (3.5%) | (5 )    |           |          |
| Present value of minimum lease payments   | 389     |           |          |
| Less current maturities                   | (389 )  |           |          |
| Long-term capital lease liability         | \$ -    |           |          |

At *March 31, 2018* and *December 31, 2017*, Pump Assets obtained under capital leases, had a cost of approximately \$14.0 million for both periods and accumulated depreciation of \$6.6 million and \$6.1 million, respectively.

The Company had minimum future operating lease commitments, mainly related to its leased facilities. Related rental expense for facilities and other equipment from *third* parties under operating leases for the *three* months ended *March 31, 2018* and *2017* was \$0.3 million and \$0.2 million, respectively.

## 11.Recent Accounting Pronouncements and Developments

In January 2017, the FASB issued Accounting Standards Update (“ASU”) No. 2017-04, “Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment”, which changes the subsequent measurement of goodwill impairment by eliminating Step 2 from the impairment test. Under the new guidance, an entity will measure impairment using the difference between the carrying amount and the fair value of the reporting unit. The new standard is effective for fiscal years beginning after December 15, 2019 (i.e. a January 1, 2020 effective date), with early adoption permitted for goodwill impairment tests with measurement dates after January 1, 2017. The Company believes the adoption will not have a material impact on its consolidated financial position, results of operations, cash flows and/or disclosures.



In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842)” (“ASU 2016-02”). Under ASU 2016-02, an entity will be required to recognize right-of-use assets and lease liabilities on its balance sheet and disclose key information about leasing arrangements. ASU 2016-02 offers specific accounting guidance for a lessee, a lessor and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. For public companies, ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period, and requires a modified retrospective adoption, with early adoption permitted. The Company is currently evaluating the impact of the pending adoption of the new standard on our consolidated financial position and/or disclosures. The Company believes the adoption of ASU 2016-02 will result in the Company recording right-of-use assets and liabilities on the consolidated balance sheets for leases currently classified as operating leases.

In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments (Topic 326) Credit Losses” (“ASU 2016-13”). ASU 2016-13 changes the impairment model for most financial assets and certain other instruments. Under the new standard, entities holding financial assets and net investment in leases that are not accounted for at fair value through net income are to be presented at the net amount expected to be collected. An allowance for credit losses will be a valuation account that will be deducted from the amortized cost basis of the financial asset to present the net carrying value at the amount expected to be collected on the financial asset. ASU 2016-13 is effective as of January 1, 2020. Early adoption is permitted. The Company is currently evaluating the impact of ASU 2016-13 on its consolidated financial position, results of operations, cash flows and/or disclosures.

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

The terms “InfuSystem”, the “Company”, “we”, “our” and “us” used herein refer to InfuSystem Holdings, Inc. and its subsidiaries.

**Cautionary Statement Regarding Forward-Looking Statements**

Certain statements contained in this quarterly report on Form 10-Q are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). The words “believe,” “may,” “will,” “estimate,” “continue,” “anticipate,” “intend,” “should,” “plan,” “expect,” “strategy,” “future,” “likely,” variations of such words and other similar expressions, as they relate to the Company, are intended to identify forward-looking statements. However, the absence of these words or similar expressions does not mean that a statement is not forward-looking. In connection with the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995, the Company is identifying certain factors that could cause actual results to differ, perhaps materially, from those indicated by these forward-looking statements. Those factors, risks and uncertainties include, but are not limited to, potential changes in overall healthcare reimbursement, including the Centers for Medicare and Medicaid Services (“CMS”) competitive bidding and fee schedule reductions, sequestration, concentration of customers, increased focus on early detection of cancer, competitive treatments, dependency on Medicare Supplier Number, availability of chemotherapy drugs, global financial conditions, changes and enforcement of state and federal laws, natural forces, competition, dependency on suppliers, risks in acquisitions & joint ventures, U.S. Healthcare Reform, relationships with healthcare professionals and organizations, technological changes related to infusion therapy, the Company’s ability to implement information technology improvements and to respond to technological changes, the ability of the Company to successfully integrate acquired businesses, dependency on key personnel, dependency on banking relations and the ability to comply with our credit facility covenants, and other risks associated with our common stock, as well as any litigation to which the Company may be involved in from time to time; and other risk factors as discussed in the Company’s annual report on Form 10-K for the year ended December 31, 2017 and in other filings made by the Company from time to time with the Securities and Exchange Commission (“SEC”). Our annual report on Form 10-K is available on the SEC’s EDGAR website at [www.sec.gov](http://www.sec.gov), and a copy may also be obtained by contacting the Company. All forward-looking statements made in this Form 10-Q speak only as of the date of this report. We do not intend, and do not undertake any obligation, to update any forward-looking statements to reflect future events or circumstances after the date of such statements, except as required by law.

**Overview**

We are a leading provider of infusion pumps and related products and services for patients in the home, oncology clinics, ambulatory surgery centers and other sites of care from five locations in the United States and Canada. We

provide our products and services to hospitals, oncology practices and facilities and other alternate site health care providers. Headquartered in Madison Heights, Michigan, we deliver local, field-based customer support and also operate pump service and repair Centers of Excellence in Michigan, Kansas, California, Georgia and Ontario, Canada. InfuSystem, Inc., a wholly-owned subsidiary of the Company, is accredited by the Community Health Accreditation Program while First Biomedical, Inc., a wholly-owned subsidiary of the Company, is ISO certified.

Our core service is to supply electronic ambulatory infusion pumps and associated disposable supply kits to oncology clinics, infusion clinics and hospital outpatient chemotherapy clinics to be utilized in the treatment of a variety of cancers including colorectal cancer and other disease states. Colorectal cancer is the third most prevalent form of cancer in the United States, according to the American Cancer Society, and the standard of care for the treatment of colorectal cancer relies upon continuous chemotherapy infusions delivered via ambulatory infusion pumps.

In addition, 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. We also provide these products and services to customers in the small-hospital market.

We purchase new and pre-owned pole mounted and ambulatory infusion pumps from a variety of sources on a non-exclusive basis. We repair, refurbish and provide biomedical certification for the devices as needed. The pumps are then available for sale, rental or to be used within our ambulatory infusion pump management service.

We view our payor environment as changing. Management is intent on extending its considerable breadth of payor contracts as patients move into different insurance coverages, including Medicaid and Insurance Marketplace products. In some cases, this may slightly reduce our aggregate billed revenues payment rate but result in an overall increase in collected revenues, effectively lessening bad debt expense on a micro level, but due to the mix of all payors may not have an impact on overall bad debt expense. Consequently, we are increasingly focused on net collected revenues less bad debt.

In the midst of changes in the healthcare arena, we believe that we will support our overall business strategy discussed above by (i) focusing on supporting recurring revenues by increasing our pump fleet; (ii) improving liquidity and strengthening the balance sheet by keeping debt levels comparable to our operations; (iii) improving internal operational efficiencies; (iv) increasing our product and services offerings; (v) enhancing our technology offerings to the patients and providers of care; and (vi) investigating synergistic acquisitions.

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*Recent Developments*

*Management Changes*

Gregory Schulte was appointed as the Company's Chief Financial Officer, effective May 7, 2018. Trent Smith, the Company's Executive Vice President, Chief Accounting Officer and Controller, relinquished his interim Chief Financial Officer duties at the time Mr. Schulte began his service.

Jan Skonieczny, the Company's former Chief Operating Officer, retired from the Company, effective April 28, 2018.

**InfuSystem Holdings, Inc. Results of Operations for the Three Months Ended March 31, 2018 Compared to the Three Months Ended March 31, 2017**

*Net Revenues*

Effective January 1, 2018, InfuSystem adopted, on a modified retrospective approach, Accounting Standards Codification ("ASC") Topic 606: *Revenue from Contracts with Customers* ("ASC 606"). The effect of this change resulted in recording the provision for doubtful accounts as part of net revenues during the quarter ended March 31, 2018 and future periods. See Note 2 to the accompanying unaudited condensed consolidated financial statements for further details.

Our net revenues for the quarter ended March 31, 2018 were \$16.5 million, a decrease of \$1.2 million, or 7%, compared to \$17.7 million for the quarter ended March 31, 2017. Net revenues for the quarter ended March 31, 2018 were impacted by a \$1.9 million change in recording bad debt as part of net revenue from rentals related to the implementation of ASC 606. Absent the implementation of ASC 606, total net revenues would have been \$18.4 million, an increase of \$0.7 million, or 4%, compared to \$17.7 million in the same prior year period.

During the quarter ended March 31, 2018, net revenues from rentals decreased \$0.7 million, or 5%, compared to the same prior year period. Absent the implementation of ASC 606, net revenues from rentals would have increased \$1.2 million, or 8%, compared to the same prior year period. Net revenues from product sales for the first quarter of 2018

were \$2.1 million, a decrease of \$0.5 million, or 18%, compared to the same period of 2017.

### *Gross Profit*

Gross profit for the quarter ended March 31, 2018 was \$10.1 million, a decrease of \$0.6 million, or 5%, compared to the quarter ended March 31, 2017. As a percentage of revenues, gross profit for the quarter ended March 31, 2018 was 61%, up from the same prior year period of 60%. Gross profit for the quarter ended March 31, 2018 was impacted by a \$1.9 million change in recording bad debt as part of net revenue related to the implementation of ASC 606. Absent the implementation of ASC 606, gross profit would have been \$12.0 million, an increase of \$1.4 million, or 12%, compared to \$10.6 million in the same prior year period. Absent the implementation of ASC 606, gross profit, as a percentage of revenues, for the quarter ended March 31, 2018 would have been 65%, up from the same prior year period of 60% due to a decrease of \$0.4 million in the costs of pumps sold, a decrease of \$0.2 million in product and supply costs and \$0.1 million in pump depreciation expense.

### *Provision for Doubtful Accounts*

Due to the implementation of ASC 606, provision for doubtful accounts (“Bad Debt”) for the quarter ended March 31, 2018 was \$0, a decrease of \$1.9 million, or 100%, compared to \$1.9 million for the first quarter of 2017. Absent the implementation of ASC 606, bad debt would have been \$1.9 million for both the quarter ended March 31, 2018 and same prior year period.

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*Amortization of Intangible Assets*

Amortization of intangible assets for the quarter ended March 31, 2018 was \$1.2 million, a decrease of \$0.2 million compared to the same prior year period. This decrease is attributable to the asset impairment of some internally developed, internal-use software projects that was recorded in the fourth quarter of 2017, thus, the related amortization of those projects no longer existed in the first quarter of 2018.

*Selling and Marketing Expenses*

Selling and marketing expenses for the quarter ended March 31, 2018 were \$2.3 million, a decrease of \$0.6 million, or 20%, compared to \$2.9 million for the quarter ended March 31, 2017. This decrease was largely attributable to a decrease in salaries and related expenses of \$0.6 million. Selling and marketing expenses during these periods consisted of sales personnel 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 March 31, 2018, General and Administrative (“G&A”) expenses were \$6.0 million, a decrease of \$0.5 million, or 7%, from \$6.5 million for the quarter ended March 31, 2017. The decrease in G&A expenses versus the comparable prior year period was primarily due to decreases in outside services expense of \$0.3 million, legal fees of \$0.1 million and salaries and related expenses of \$0.1 million.

*Other Income and Expenses*

During the quarter ended March 31, 2018, we recorded interest expense of \$0.3 million, which was consistent with the amount recorded for the comparable prior year period.

*Income Taxes*

During the three months ended March 31, 2018, the Company recorded expense provision for income taxes of \$0.1 million. The provision for income taxes relates principally to the Company's state and local taxes and foreign operations in Canada. The Company recorded an income tax benefit of \$0.9 million for the same prior year period.

The Company's realization of its deferred tax assets is dependent upon many factors, including, but not limited to, the Company's ability to generate sufficient taxable income. 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. Accordingly, at March 31, 2018 and December 31, 2017, the Company had a full valuation allowance for all deferred tax assets, as management determined that it is more likely than not the Company will not recognize the benefits of its federal and state deferred tax assets.

In December 2017, the Tax Cuts and Jobs Act (the "2017 Tax Act") was enacted. The 2017 Tax Act includes many changes to existing U.S. tax laws that impact the Company, most notably a reduction of the U.S. corporate income tax rate from 35% to 21% for tax years beginning after December 31, 2017. The 2017 Tax Act also provides for a one-time transition tax on certain foreign earnings and the acceleration of depreciation for certain assets placed into service after September 27, 2017 as well as prospective changes beginning in 2018, including repeal of the domestic manufacturing deduction, acceleration of tax revenue recognition, capitalization of research and development expenditures, additional limitations on executive compensation and limitations on the deductibility of interest.

The Company recognized the income tax effects of the 2017 Tax Act in its 2017 consolidated financial statements in accordance with Staff Accounting Bulletin No. 118, which provides SEC staff guidance for the application of ASC Topic 740, Income Taxes, in the reporting period in which the 2017 Tax Act was signed into law. As such, the Company's financial results reflect the income tax effects of the 2017 Tax Act for which the accounting under ASC Topic 740 is complete and provisional amounts for those specific income tax effects of the 2017 Tax Act for which the accounting under ASC Topic 740 is incomplete but a reasonable estimate could be determined. The ultimate impact of the 2017 Tax Act on our financial statements and related disclosures for 2018 and beyond may differ from our current provisional amounts, possibly materially, due to, among other things, changes in interpretations and assumptions we have made, guidance that may be issued, and other actions we may take as a result of the 2017 Tax Act that differ from those presently contemplated.

As of March 31, 2018, the Company had not yet completed its accounting for all of the tax effects of the enactment of the 2017 Tax Act; however, the Company has made a reasonable estimate of the effects on its existing deferred tax balances. The Company will continue to refine its calculations as additional analysis is completed. The Company expects that any additional changes will be offset by an increase or decrease in the Company's valuation allowance.

## Liquidity and Capital Resources

### *Overview:*

We finance our operations and capital expenditures with internally generated cash from operations. During the three months ended March 31, 2018, we generated positive cash flow to enable us to reduce our debt by \$2.8 million. As of March 31, 2018, we had cash and cash equivalents of \$1.5 million and \$9.2 million of availability on our revolving credit facility compared to \$3.5 million of cash and cash equivalents and \$9.2 million of availability on our revolving credit facility at December 31, 2017. Our liquidity and borrowing plans are established to align with our financial and strategic planning processes and ensure we have the necessary funding to meet our operating commitments, which primarily include the purchase of pumps, inventory, payroll and general expenses. We also take into consideration our overall capital allocation strategy which includes investment for future growth, potential acquisitions and share repurchases. We believe we have adequate sources of liquidity and funding available for at least the next year, however, there are a number of factors that may negatively impact our available sources of funds. The amount of cash generated from operations will be dependent upon factors such as the successful execution of our business plan and general economic conditions.

### *Long-Term Debt Activities:*

As of March 31, 2018, our term loan under the credit facility had a balance of \$25.9 million. The net availability under the revolving credit line under the credit facility is based upon our eligible accounts receivable and inventory and is computed as follows (in thousands):

|                    | <b>March<br/>31,<br/>2018</b> | <b>December<br/>31,<br/>2017</b> |
|--------------------|-------------------------------|----------------------------------|
| Revolver:          |                               |                                  |
| Gross availability | \$ 10,000                     | \$ 10,000                        |
| Outstanding draws  | -                             | -                                |
| Letter of credit   | (750 )                        | (750 )                           |
| Landlord reserves  | (68 )                         | (45 )                            |
| Net availability   | \$ 9,182                      | \$ 9,205                         |

As of March 31, 2018, interest on the credit facility is payable at our option as a (i) Eurodollar Loan, which bears interest at a per annum rate equal to the applicable 30-day London Interbank Offered Rate (“LIBOR”) plus an applicable margin ranging from 2.00% to 3.00% or (ii) CB Floating Rate (“CBFR”) Loan, which bears interest at a per annum rate equal to the greater of (a) the lender’s prime rate or (b) LIBOR plus 2.50%, in each case, plus a margin ranging from



-1.00% to 0.25%. The actual rate at March 31, 2018 was 4.63% (LIBOR of 1.88% plus 2.75%).

As of March 31, 2018, we were in compliance with all debt related covenants under the credit facility.

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*Share Repurchase Program*

On March 12, 2018, our Board of Directors approved a stock repurchase program authorizing the Company to repurchase up to 1 million shares of the Company's outstanding stock. The repurchase program will be subject to market conditions, the periodic capital needs of the Company's operating activities, and the continued satisfaction of all covenants under the Company's existing credit agreement. As of March 31, 2018, we had availability of \$9.2 million under our credit facility, of which \$2.4 million could be used to fund stock repurchases, subject to the restrictions and limitations of our credit agreement. The repurchase program does not obligate the Company to repurchase shares and may be suspended, terminated, or modified at any time. Repurchases under the program may take place in the open market or in privately negotiated transactions, and may be made under a Rule 10b5-1 plan.

***Cash Flows:***

***Operating Cash Flow.*** Net cash provided by operating activities for the three months ended March 31, 2018 was \$1.0 million compared to cash used in operating activities of \$1.4 million for the three months ended March 31, 2017. This increase was primarily attributable to the cash flow effect of the operating improvement from a net loss in the first quarter of 2017 to net income in the first quarter of 2018 and the impact of non-cash transactions, including deferred income taxes.

***Investing Cash Flow.*** Net cash used in investing activities was \$0.1 million for the three months ended March 31, 2018 compared to cash provided by investing activities of \$0.5 million for the three months ended March 31, 2017. The decrease was due to a \$0.4 million decrease in cash proceeds from the sales of medical equipment and a \$0.3 million increase in cash used to purchase medical equipment, which was partially offset by a decrease in cash used to purchase non-pump assets of \$0.1 million.

***Financing Cash Flow.*** Net cash used in financing activities for the three months ended March 31, 2018 was \$2.8 million compared to cash used of \$2.3 million for the three months ended March 31, 2017. The increase in net cash used was primarily attributable to our decision to pay down our term loan debt in the first quarter of 2018 compared with our cash proceeds from borrowings under our revolving credit facility in the first quarter of 2017.

**Critical Accounting Policies and Estimates**

The unaudited condensed 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 unaudited condensed consolidated financial statements and the judgments and assumptions used are consistent with those described in the notes to the audited consolidated financial statements in our annual report on Form 10-K for the year ended December 31, 2017, with the exception of our adoption of ASC 606 and Staff Accounting Bulletin No. 118. See Note 2 and Note 7 to the accompanying unaudited condensed consolidated financial statements, respectively, for further details.

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

We are a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and are not required to provide the information required under this item.

### **Item 4. Controls and Procedures**

#### **Evaluation of Disclosure Controls and Procedures and Changes in Internal Control over Financial Reporting**

We maintain a set of disclosure controls and procedures designed to ensure that material information required to be disclosed in our filings under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that material information is accumulated and communicated to our management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), as appropriate, to allow timely decisions regarding required disclosures. Our CEO and CFO have evaluated these disclosure controls and procedures as of the end of the period covered by this quarterly report on Form 10-Q and have determined that such disclosure controls and procedures were effective.

There has been no change in our internal control over financial reporting during our most recent calendar quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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**PART II—OTHER INFORMATION**

**Item 1. Legal Proceedings**

From time to time in the ordinary course of our business, we may be involved in legal proceedings, the outcomes of which may not be determinable. The results of litigation are inherently unpredictable. Any claims against us, whether meritorious or not, could be time consuming, result in costly litigation, require significant amounts of management time and result in diversion of significant resources. We are not able to estimate an aggregate amount or range of reasonably possible losses for those legal matters for which losses are not probable and estimable, primarily for the following reasons: (i) many of the relevant legal proceedings are in preliminary stages and until such proceedings develop further, there is often uncertainty regarding the relevant facts and circumstances at issue and potential liability; and (ii) many of these proceedings involve matters of which the outcomes are inherently difficult to predict. We have insurance policies covering potential losses where such coverage is cost effective.

On January 29, 2018, we received notice that the U.S. District Court for the Central District of California (the “Court”) (Case No. 2:16-cv-08295-ODW) issued an order dismissing, with prejudice, a putative class-active lawsuit against the Company. The dismissal relates to an action brought on November 8, 2016 by a purported shareholder of the Company against the Company and two individual defendants: Eric Steen, the Company’s former Chief Executive Officer, President and Director; and Jonathan Foster, the Company’s former Chief Financial Officer. The complaint asserted claims against all defendants under the antifraud provisions of the federal securities laws and against Messrs. Steen and Foster as control persons. On June 19, 2017, the Company and all defendants filed a Motion to Dismiss the amended complaint. On December 15, 2017, the Court dismissed the plaintiffs’ first amendment to the class action complaint (“FAC”), with leave to amend. On December 20, 2017, the parties stipulated, and the Court extended, the plaintiffs time to amend the FAC up to January 19, 2018. As of January 19, 2018, the plaintiff never filed an amended complaint and the Court dismissed the lawsuit with prejudice on January 29, 2018. On February 28, 2018, the plaintiff filed a notice of appeal, on the motion to dismiss, to the 9th Circuit Court of Appeals.

We are not at this time involved in any legal proceedings that we believe could have a material effect on our business, financial condition, results of operations or cash flows.

**Item 1A. Risk Factors**

For information regarding factors that could affect our results of operations, financial condition and liquidity, refer to the section entitled “Risk Factors” in Part I, Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2017.

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

The table below provides information with respect to common stock purchases by the Company during the quarter ended March 31, 2018:

| Period                          | Total<br>Number of<br>Shares<br>Purchased<br>as<br>Part of<br>Publicly<br>Announced<br>Plans or<br>Programs<br>(a) | Average<br>Price<br>Paid<br>per<br>Share | Approximate<br>Dollar Value<br>of<br>Shares That<br>May Yet Be<br>Purchased<br>Under the<br>Plans or<br>Programs (a) |
|---------------------------------|--------------------------------------------------------------------------------------------------------------------|------------------------------------------|----------------------------------------------------------------------------------------------------------------------|
|                                 |                                                                                                                    |                                          |                                                                                                                      |
| March 12, 2018 - March 31, 2018 | 32,264                                                                                                             | \$ 2.57                                  | \$ 2,417,012                                                                                                         |
| Total                           | 32,264                                                                                                             | \$ 2.57                                  |                                                                                                                      |

(a) On March 12, 2018, our Board of Directors authorized a share repurchase program that allows the Company to repurchase up to the lesser of 1,000,000 shares or \$2,500,000 of our common stock through December 31, 2018. The repurchases are to be effectuated in the open market or in privately negotiated transactions, and may be made under a Rule 10b5-1 plan. During the three months ended March 31, 2018, we repurchased 32,264 shares for a total consideration of \$82,988 under the program. At March 31, 2018, \$2,417,012 remains available for repurchase under the program.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

On May 11, 2018, the Company and Christopher Downs, the Company's former Chief Financial Officer, entered into an Equity Settlement Agreement pursuant to which Mr. Downs' stock options were cancelled in exchange for a cash payment of \$28,883 to Mr. Downs and Mr. Downs' release of claims against the Company relating to such awards.

The foregoing description of the Equity Settlement Agreement is not complete and is qualified in its entirety by the full text of the Equity Settlement Agreement, a copy of which is filed with this quarterly report on Form 10-Q as Exhibit 10.2 and incorporate by reference herein.

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**Item 6. Exhibits**

**Exhibits**

- 10.1\* Employment Agreement by and between InfuSystem Holdings, Inc. and Gregory Schulte, effective May 7, 2018
- 10.2\* Equity Settlement Agreement by and between InfuSystem Holdings, Inc. and Christopher Downs, effective May 11, 2018
- 10.3\* Inducement Stock Option Award Agreement by and between InfuSystem Holdings, Inc. and Gregory Schulte, effective May 7, 2018.
- 31.1\* Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2\* Certification of Chief 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

\* Filed herewith

\*\* Pursuant to Item 601(b)(32) of Regulation S-K, this Exhibit is furnished rather than filed with the Form 10-Q.

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**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: May 14, 2018

/s/ Richard DiIorio  
Richard DiIorio  
Chief Executive Officer, President  
and Director  
(Principal Executive Officer)

Date: May 14, 2018

/s/ Gregory Schulte  
Gregory Schulte  
Chief Financial Officer  
(Principal Financial Officer)