UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 2017

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	**20-3341405**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer 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)

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 November 6, 2017, 22,780,738 shares of the registrant s common stock, par value $0.0001 per share, were outstanding.

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Item 1. Financial Statements

INFUSYSTEM HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)	As of September 30, 2017 (Unaudited)	As of December 31, 2016
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 803	$ 3,398
Accounts receivable, less allowance for doubtful accounts of $6,847 and $4,989 at September 30, 2017 and December 31, 2016, respectively	10,971	11,581
Inventory	1,873	2,166
Other current assets	1,121	949
Deferred income taxes		2,675
Total Current Assets	14,768	20,769
Medical equipment held for sale or rental	1,200	1,642
Medical equipment in rental service, net of accumulated depreciation	24,301	28,036
Property & equipment, net of accumulated depreciation	1,711	1,997
Intangible assets, net	26,951	31,239
Deferred income taxes	16,334	12,436
Other assets	70	225
Total Assets	$ 85,335	$ 96,344
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	$ 4,093	$ 5,315
Capital leases	584	2,938
Current portion of long-term debt	2,849	5,314
Other current liabilities	2,427	2,872
Total Current Liabilities	9,953	16,439
Long-term debt, net of current portion	26,535	26,577
Capital leases	101	2,573
Other long-term liabilities		66
Total Long-Term Liabilities	26,636	29,216
Total Liabilities	$ 36,589	$ 45,655
Stockholders Equity:		
Preferred stock, $.0001 par value: authorized 1,000,000 shares; none issued		
	2	2

Common stock, $.0001 par value: authorized 200,000,000 shares; issued and outstanding 22,978,398 and 22,780,738, respectively, as of September 30, 2017 and 22,867,335 and 22,669,675, respectively, as of December 31, 2016		
Additional paid-in capital	92,383	91,829
Retained deficit	(43,639)	(41,142)
Total Stockholders Equity	48,746	50,689
Total Liabilities and Stockholders Equity	$ 85,335	$ 96,344

See accompanying notes to unaudited condensed consolidated financial statements.

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INFUSYSTEM HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

(in thousands, except share and per share data)	**Three Months Ended September 30**		**Nine Months Ended September 30**	
	2017	**2016**	**2017**	**2016**
Net revenues:				
Rentals	$ 15,322	$ 14,640	$ 45,228	$ 47,370
Product Sales	2,266	2,586	6,956	6,273
Net revenues	17,588	17,226	52,184	53,643
Cost of revenues:				
Cost of revenues Product, service and supply costs	4,452	4,018	13,612	12,313
Cost of revenues Pump depreciation and disposals	2,095	2,819	6,541	7,241
Gross profit	11,041	10,389	32,031	34,089
Selling, general and administrative expenses:				
Provision for doubtful accounts	1,274	1,098	4,456	3,912
Amortization of intangibles	1,384	958	4,182	2,792
Selling and marketing	2,262	2,490	7,443	7,629
General and administrative	5,561	5,267	18,451	18,328
Total selling, general and administrative	10,481	9,813	34,532	32,661
Operating income (loss)	560	576	(2,501)	1,428
Other (expense) income:				
Interest expense	(354)	(384)	(1,015)	(1,016)
Other (expense) income	(8)	(6)	(111)	21
Total other expense	(362)	(390)	(1,126)	(995)
Income (loss) before income taxes	198	186	(3,627)	433
Income tax (expense) benefit	(327)	(130)	914	(183)
Net (loss) income	$ (129)	$ 56	$ (2,713)	$ 250
Net (loss) income per share:				
Basic	$ (0.01)	$ 0.00	$ (0.12)	$ 0.01
Diluted	$ (0.01)	$ 0.00	$ (0.12)	$ 0.01
Weighted average shares outstanding:				
Basic	22,755,976	22,620,386	22,725,806	22,614,203
Diluted	22,755,976	22,995,643	22,725,806	23,059,794

See accompanying notes to unaudited condensed consolidated financial statements.

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INFUSYSTEM HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(in thousands)	Nine Months Ended September 30 2017	2016
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 4,102	$ 3,735
INVESTING ACTIVITIES		
Acquisition of business		(200)
Purchase of medical equipment and property	(2,829)	(6,997)
Proceeds from sale of medical equipment and property	3,518	2,511
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	689	(4,686)
FINANCING ACTIVITIES		
Principal payments on revolving credit facility, term loans and capital lease obligations	(35,769)	(44,197)
Cash proceeds from revolving credit facility	28,317	45,327
Debt issuance costs	(38)	
Common stock repurchased to satisfy statutory withholding on employee stock based compensation plans	(27)	(50)
Cash proceeds from stock plans	131	125
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(7,386)	1,205
Net change in cash and cash equivalents	(2,595)	254
Cash and cash equivalents, beginning of period	3,398	818
Cash and cash equivalents, end of period	$ 803	$ 1,072

See accompanying notes to unaudited condensed consolidated financial statements.

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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 it subsidiaries. InfuSystem Holdings, Inc. 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, Texas, 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, 2016 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. Medical Equipment and Property

Medical equipment consisted of the following as of September 30, 2017 and December 31, 2016 (in thousands):

	September 30, 2017	December 31, 2016
Medical Equipment held for sale or rental	$ 1,200	$ 1,642
Medical Equipment in rental service	58,681	59,034
Medical Equipment in rental service pump reserve	(519)	(551)
Accumulated depreciation	(33,861)	(30,447)
Medical Equipment in rental service net	24,301	28,036

Total	$	25,501	$	29,678

Depreciation expense for medical equipment for the three and nine months ended September 30, 2017 was $1.7 million and $4.8 million, respectively, compared to $1.6 million and $4.7 million for the same prior year periods, which was recorded in cost of revenues pump depreciation and disposals, for each period.

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3. Property and Equipment

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

	September 30, 2017			December 31, 2016		
	Gross Assets	Accumulated Depreciation	Total	Gross Assets	Accumulated Depreciation	Total
Furniture, fixtures, and equipment	$ 3,842	$ (3,253)	$ 589	$ 3,809	$ (3,071)	$ 738
Automobiles	118	(82)	36	129	(83)	46
Leasehold improvements	2,177	(1,091)	1,086	2,177	(964)	1,213
Total	$ 6,137	$ (4,426)	$ 1,711	$ 6,115	$ (4,118)	$ 1,997

Depreciation expense for property and equipment for the three and nine months ended September 30, 2017 was $0.1 million and $0.4 million, respectively, compared to $0.1 million and $0.4 million for the same prior year periods. This expense was recorded in general and administrative expenses.

4. Intangible Assets

The carrying amount and accumulated amortization of intangible assets as of September 30, 2017 and December 31, 2016, are as follows (in thousands):

	September 30, 2017		
	Gross Assets	**Accumulated Amortization**	**Net**
Nonamortizable intangible assets			
Trade names	$ 2,000	$	$ 2,000
Amortizable intangible assets			
Trade names	23	23	
Physician and customer relationships	36,534	21,207	15,327
Non-competition agreements	1,136	1,120	16
Software	13,635	4,027	9,608
Total nonamortizable and amortizable intangible assets	$ 53,328	$ 26,377	$ 26,951

	December 31, 2016		
	Gross Assets	**Accumulated Amortization**	**Net**
Nonamortizable intangible assets			
Trade names	$ 2,000	$	$ 2,000
Amortizable intangible assets			
Trade names	23	23	
Physician and customer relationships	36,534	19,427	17,107

Non-competition agreements	1,136	1,064	72
Software	13,745	1,685	12,060
Total nonamortizable and amortizable intangible assets	$ 53,438	$ 22,199	$ 31,239

Amortization expense for the three and nine months ended September 30, 2017 was $1.4 million and $4.2 million, respectively, compared to $1.0 million and $2.8 million, respectively, for the three and nine months ended September 30, 2016. Expected annual amortization expense for intangible assets recorded as of September 30, 2017, is as follows (in thousands):

	10/1-12/31/2017	2018	2019	2020	2021	2022 and thereafter
Amortization expense	$ 1,382	$ 5,216	$ 4,783	$ 4,347	$ 3,975	$ 5,248

5. Debt

On March 23, 2015, the Company and its direct and indirect subsidiaries (the Borrowers) entered into a credit agreement (the Chase Credit Agreement) with JPMorgan Chase Bank, N.A., as lender (the Lender). The Chase Credit Agreement originally provided for a $27.0 million Term Loan A, up to an $8.0 million Term Loan B and a $10.0 million revolving credit facility (the Revolver) and a maturity date of March 23, 2020, collectively (the Credit Facility). The Borrowers drew $27.0 million under the Term Loan A to repay and terminate the previously existing Credit Facility under the credit agreement dated November 30, 2012, as amended, by and among the Company, its direct and indirect subsidiaries, Wells Fargo Bank, National Association, as administrative agent, and certain lenders party thereto (the WF Facility). Term Loan B was unfunded at closing and beginning on April 20, 2015, the closing date of the acquisition of the assets of Ciscura, the Borrowers drew $8.0 million on Term Loan B, in several installments, in accordance with the requirements of the asset purchase agreement governing the acquisition to fund the acquisition and associated expenses. The remaining available amount on Term Loan B expired on March 23, 2016.

On December 5, 2016, the Company entered into a First Amendment to the Chase Credit Agreement to waive certain events of default then existing thereunder, as well as to make certain amendments to the Credit Facility, including but not limited to: (i) restructuring of the Credit Facility that effectively consolidated Term Loan A and Term Loan B into a new single term loan (the Term Loan) resulting in a new total drawn amount of $32 million under the Term Loan with the approximately $5 million excess over the current aggregate drawn amounts under Term Loan A and Term Loan B to be available to reduce the Company s drawings under the revolving credit line under the Credit Facility; (ii) extending the maturity date of the Term Loan and the revolving credit line to December 5, 2021; (iii) setting the quarterly mandatory principal payment due on the Term Loan to $1.3 million due on the last business day of each fiscal quarter with any remaining unpaid and outstanding amount due at maturity; and (iv) amending the leverage ratio covenant to provide for the following schedule of maximum permitted ratios: (a) 2.75 to 1.0 at any time on or after December 31, 2015 but prior to March 31, 2017, (b) 2.50 to 1.0 at any time on or after March 31, 2017 but prior to March 31, 2018 or (c) 2.25 to 1.00 at any time on or after March 31, 2018.

On March 22, 2017, the Company entered into a Second Amendment to the Chase Credit Agreement to make certain amendments to the Credit Facility, including but not limited to: (i) amending the definition of Fixed Charges to increase the Company s ability to prepay its indebtedness under the Credit Facility without negatively impacting its financial covenants; and (ii) amending the leverage ratio covenant to provide for the following schedule of maximum permitted ratios: (a) 2.75 to 1.0 at any time on or after December 31, 2015 but prior to March 31, 2018, (b) 2.50 to 1.0 at any time on or after March 31, 2018 but prior to March 31, 2019 or (c) 2.25 to 1.00 at any time on or after March 31, 2019.

As of March 31, 2017, the Company breached a financial covenant under its Credit Facility, which resulted in an event of default under the Credit Facility. Specifically, the Company was not in compliance with the leverage ratio covenant under the Credit Facility. The required maximum leverage ratio under the Credit Facility as of March 31, 2017 was 2.75 compared to an actual ratio of 2.96. The Company subsequently received a waiver from this breach from the Lender on May 10, 2017, which provided a limited, specific and one-time waiver from this breach but did not otherwise modify the terms of the Credit Facility. No fee was paid to the Lender in connection with this waiver.

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On June 28, 2017, the Company entered into a Third Amendment to the Chase Credit Agreement to make certain amendments to the Credit Facility, including but not limited to:

(i) restates the chart within the definition of Applicable Rate in Section 1.01 of the Credit Agreement as follows:

Leverage Ratio	CBFR Spread	Eurodollar Spread	Commitment Fee Rate
Level I < 1.5:1.0	-1.00%	2.00%	0.25%
Level II < 2.0:1.0 to 1.0 but ³ 1.5:1.0	-0.75%	2.25%	0.25%
Level III < 2.5:1.0 to 1.0 but ³ 2.0:1.0	-0.50%	2.50%	0.25%
Level IV < 3.0:1.0 to 1.0 but ³ 2.5:1.0	0.00%	2.75%	0.25%
Level V ³ 3.0:1.0	0.25%	3.00%	0.25%

and further amends the definition of Applicable Rate in Section 1.01 of the Credit Agreement by adding the following to the end thereof: The Applicable Rate will be set at Level V as of the Third Amendment Effective Date, and adjusted for the first time thereafter based on the financial statements required to be delivered hereunder for the fiscal quarter ending June 30, 2017. ;

(ii) amend the definition of Fixed Charge Coverage Ratio in Section 1.01 of the Credit Agreement by adding the phrase (it is acknowledged that, at all times, such unfinanced portion is either a deduction to EBITDA or, if unfinanced portion is ever interpreted to be a negative number, then zero) to follow the phrase therein that reads means, for any period, the ratio of (a) EBITDA minus the unfinanced portion of Capital Expenditures. ;

(iii) amend clause (f)(ii) in the definition of Permitted Acquisition in Section 1.01 of the Credit Agreement by (a) replacing the reference therein to $10,000,000 with $5,000,000 and (b) by replacing the reference therein to $25,000,000 with $12,500,000. ;

(iv) add the following definition of Excess Cash Flow to Section 1.01 of the Credit Agreement as follows:
Excess Cash Flow means, for any fiscal year of the Company, (a) EBITDA for such fiscal year, minus (b) Capital Expenditures made or incurred during such fiscal year minus (c) Fixed Charges for such fiscal year.

(v) restate Section 2.08(b) of the Credit Agreement as follows:
(b) The Borrowers hereby unconditionally agree that the Term A Loans and the Term B Loans shall be replaced and refinanced in full as of the First Amendment Effective Date with a Term Loan in an aggregate amount equal to $32,000,000 made under Section 2.01(d), the Borrowers acknowledge and agree that the principal balance of such Term Loan as of the Third Amendment Effective Date is $30,665,999.98, and the Borrowers hereby unconditionally promise to pay to the Lender the principal amount of the Term Loans made under Section 2.01(d) after the Third Amendment Effective Date as follows: (i) on June 30, 2017, September 30, 2017 and December 31, 2017 in principal installments each in the amount of $577,500 (as adjusted from time to time pursuant to Section 2.09(d) or 2.16(b)), (ii) commencing with the last Business Day of March, 2018 and on the last Business Day of each March, June, September and December thereafter, in consecutive quarterly principal installments each in the amount of $766,650 (as adjusted from time to time pursuant to Section 2.09(d) or 2.16(b)) and (iii) to the extent not previously paid, all unpaid Term Loans shall be paid in full in cash by the Borrowers on the Term Maturity Date.

(vi) restate Section 2.09(d) of the Credit Agreement as follows:
(d) All prepayments required to be made pursuant to Section 2.09(c) shall be applied, first to prepay the Term Loans (and in the event Term Loans of more than one Class shall be outstanding at the time, shall be allocated among the Term Loans pro rata based on the aggregate principal amounts of outstanding Term Loans of each such Class), and such prepayments of the Term Loans shall be applied to reduce the remaining scheduled repayments of Term Loans of each Class in the inverse order of maturity (with any prepayments applied first to the payment at final maturity), second to prepay the Revolving Loans without a corresponding reduction in the

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Revolving Commitment and third to cash collateralize outstanding LC Exposure. Within each such category, such prepayments shall be applied first to CBFR Loans and then to Eurodollar Loans in order of Interest Period maturities (beginning with the earliest to mature).

All prepayments required to be made pursuant to Section 2.09(f) shall be applied, first to prepay the Revolving Loans without a corresponding reduction in the Revolving Commitment, second to prepay the Term Loans (and in the event Term Loans of more than one Class shall be outstanding at the time, shall be allocated among the Term Loans pro rata based on the aggregate principal amounts of outstanding Term Loans of each such Class), and such prepayments of the Term Loans shall be applied to reduce the remaining scheduled repayments of Term Loans of each Class in the inverse order of maturity (with any prepayments applied first to the payment at final maturity), and third to cash collateralize outstanding LC Exposure. Within each such category, such prepayments shall be applied first to CBFR Loans and then to Eurodollar Loans in order of Interest Period maturities (beginning with the earliest to mature).

(vii) add a new Section 2.09(f) to the Credit Agreement as follows:
(f) Until the latest of the Revolving Credit Maturity Date, the Term A Maturity Date, the Term B Maturity Date or the Term Maturity Date, as the case may be, the Borrowers shall prepay the Obligations as set forth in Section 2.09(d) on the date that is ten days after the earlier of (i) the date on which the Company s annual audited financial statements for the immediately preceding fiscal year are delivered pursuant to Section 5.01 or (ii) the date on which such annual audited financial statements were required to be delivered pursuant to Section 5.01, in an amount equal to:
(I) seventy-five percent (75%) of the Company s Excess Cash Flow for the immediately preceding fiscal year if the Company s Leverage Ratio is greater than or equal to 2.5 to 1.0 for the immediately preceding fiscal year, (II) fifty percent (50%) of the Company s Excess Cash Flow for the immediately preceding fiscal year if the Company s Leverage Ratio is less than 2.5 to 1.0 but greater than or equal to 2.0 to 1.0 for the immediately preceding fiscal year, or (III) zero percent (0%) of the Company s Excess Cash Flow for the immediately preceding fiscal year if the Company s Leverage Ratio is less than 2.0 to 1.0 for the immediately preceding fiscal year. Each Excess Cash Flow prepayment shall be accompanied by a certificate signed by a Financial Officer of the Company certifying the manner in which Excess Cash Flow and the resulting prepayment was calculated, which certificate shall be in form and substance satisfactory to the Lender.

(viii) amend Section 6.04(c) of the Credit Agreement by replacing the reference therein to $5,000,000 with $2,500,000. ;

(ix) restate Sections 6.12(a) and (b) of the Credit Agreement as follows:
(a) <u>Leverage Ratio</u>. The Borrowers will not permit the Leverage Ratio to exceed (i) 4.0 to 1.0 at any time on or after the Effective Date but prior to December 31, 2017, (ii) 3.75 to 1.0 at any time on or after December 31, 2017 but prior to June 30, 2018, (iii) 3.50 to 1.0 at any time on or after June 30, 2018 but prior to December 31, 2018, or (iv) 3.00 to 1.00 at any time on or after December 31, 2018.

(b) <u>Fixed Charge Coverage Ratio</u>. The Borrowers will not permit the Fixed Charge Coverage Ratio to be less than (i) 1.15:1.0 at any time on or after the Effective Date but prior to March 31, 2018, or (ii) 1.25:1.0 at any time on or after March 31, 2018.

As of September 30, 2017, the Borrowers were in compliance with all such covenants.

Simultaneous with the execution of Third Amendment, the Company entered into a Patent and Trademark Security Agreement, which replaces the Patent and Trademark Security Agreement entered into on March 23, 2015 at the time the Company entered into the Credit Agreement. The new Patent and Trademark Security Agreement was revised to make reference to the Third Amendment and the Company has provided the Lender with updated schedules listing the Company s trademarks, patents, applications for trademarks and patents, and other intellectual properties owned or licensed.

As a result of the changes to the definition of Leverage Ratio and Fixed Charge Coverage Ratio within the Third Amendment, the Company will have increased flexibility. The change to the definition of Applicable Rate will effectively increase the Company s interest rate under the Credit Agreement by 50 basis points in the near term, while allowing for the Company to reduce that rate as its Leverage Ratio declines.

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To secure repayment of the obligations of the Borrowers, each Borrower has granted to the Lender, for the benefit of various secured parties, a first priority security interest in substantially all of the personal property assets of each of the Borrowers. In addition, the Company has pledged the shares of InfuSystem Holdings USA, Inc. (Holdings USA) and Holdings USA has pledged the shares of each of InfuSystem, Inc. and First Biomedical, Inc. and the equity interests of IFC, LLC to the Lender, for the benefit of the secured parties, to further secure the obligations under the Chase Credit Agreement.

The availability under the Revolver is based upon the Borrowers eligible accounts receivable and eligible inventory and is comprised as follows (in thousands):

	September 30, 2017	December 31, 2016
Revolver:		
Gross Availability	$ 9,810	$ 10,000
Outstanding Draws		
Letter of Credit	(750)	
Landlord Reserves	(45)	(45)
Availability on Revolver	$ 9,015	$ 9,955

The Company had approximate future maturities of loans as of September 30, 2017 as follows (in thousands):

	2017	2018	2019	2020	2021	Total
Term Loan	$ 578	$ 3,067	$ 3,067	$ 3,067	$ 19,732	$ 29,511
Unamortized value of the debt issuance costs (a)	(7)	(30)	(30)	(30)	(30)	(127)
Revolver						
Total	$ 571	$ 3,037	$ 3,037	$ 3,037	$ 19,702	$ 29,384

(a) Includes the reclassification of the debt issuance costs as a result of the Company adopting ASU 2015-03
The following is a breakdown of the Company s current and long-term debt as of September 30, 2017 and December 31, 2016 (in thousands):

	September 30, 2017				December 31, 2016		
	Current Portion of Long-Term Debt	Long-Term Debt	Total		Current Portion of Long-Term Debt	Long-Term Debt	Total
Term Loan	$ 2,877	$ 26,634	$ 29,511	Term Loans	$ 5,336	$ 26,664	$ 32,000
	$ (28)	$ (99)	(127)		$ (22)	$ (87)	(109)

Unamortized value of the debt issuance costs (a)				Unamortized value of the debt issuance costs (a)			
Revolver				Revolver			
Total	$ 2,849	$ 26,535	$ 29,384	Total	$ 5,314	$ 26,577	$ 31,891

(a) Includes the reclassification of the debt issuance costs as a result of the Company adopting ASU 2015-03

As of September 30, 2017, 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 LIBOR Plus a margin ranging from 2.00% to 3.00% or (ii) CBFR Loan, which bears interest at a per annum rate equal to the greater of (a) the lender s prime rate or (b) LIBOR for a 30-day interest period plus 2.50%, in each case, plus a margin ranging from -1.00% to 0.25%. The actual rate at September 30, 2017 was 3.99% (LIBOR of 1.24% plus 2.75%).

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6. Income Taxes

During the three and nine months ended September 30, 2017, the Company recorded income tax expense of $0.3 million and an income tax benefit of $0.9 million, respectively. During the three and nine months ended September 30, 2016, the Company recorded an income tax expense of $0.1 million and $0.2 million, respectively. In computing its income tax provision, the Company estimates its effective tax rate for the full year and applies that rate to income earned through the reporting period. The Company s effective income tax rate for the nine months ended September 30, 2017 was 25.2% compared to 42.3% for the same prior year period.

7. 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.

As a result of the restatement of the Company s consolidated financial statements as of December 31, 2015 and the first and second quarters of 2016, the Company is currently involved in a class-action lawsuit filed by shareholders. On November 8, 2016, a purported shareholder of the Company filed a putative class-action lawsuit in the U.S. District Court for the Central District of California (the Court) (Case No. 2:16-cv-08295-ODW) 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 alleges that the defendants issued materially false and misleading statements in and/or omitted material facts from documents filed with the SEC between May 12, 2015 and November 7, 2016. The complaint asserts claims against all defendants under the antifraud provisions of the federal securities laws and against Messrs. Steen and Foster as control persons. The complaint seeks compensatory damages for the putative class, prejudgment and post-judgment interest, attorneys fees and other costs. Two other shareholders subsequently filed motions for appointment as lead plaintiff and for appointment of their attorneys as lead counsel for the putative class. On February 17, 2017, the Court appointed a lead plaintiff for the putative class. On April 18, 2017, the lead plaintiff filed an amended class-action complaint with the Court. On June 19, 2017, the Company and all defendants filed a Motion to Dismiss the amended complaint and that motion is now fully briefed and is pending before the Court.

The Company believes that the allegations against it and its officers are without merit and intends to vigorously defend against the claims asserted. The ultimate resolution of this matter cannot be predicted, however, and it is not possible at this time for the Company to estimate any probable loss or range of losses because of the preliminary nature of the matter.

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8. (Loss) Earnings Per Share

Basic (loss) income per share is computed by dividing net (loss) income by the weighted average number of common shares outstanding during the period. Diluted (loss) income 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 (loss) income per share computations:

	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
Numerator:				
Net (loss) income *(in thousands)*	$ (129)	$ 56	$ (2,713)	$ 250
Denominator:				
Weighted average common shares outstanding:				
Basic	22,755,976	22,620,386	22,725,806	22,614,203
Dilutive effect of non-vested awards		375,257		445,591
Diluted	22,755,976	22,995,643	22,725,806	23,059,794
Net (loss) income per share:				
Basic	$ (0.01)	$ 0.00	$ (0.12)	$ 0.01
Diluted	$ (0.01)	$ 0.00	$ (0.12)	$ 0.01

For the three and nine months ended September 30, 2017, 0.7 million and 0.6 million of stock options were not included in the calculation because they would have an anti-dilutive effect, compared to less than 0.1 million for the same prior year periods.

9. 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. 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. The weighted average interest rate under capital leases was 3.6% as of September 30, 2017. 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.

Future minimum rental payments pursuant to leases that have an initial or remaining non-cancelable lease term in excess of one year as of September 30, 2017 are as follows (in thousands):

	Capital Leases	Operating Leases	Total
2017	$ 153	$ 331	$ 484

2018	514	1,324	1,838
2019	33	1,223	1,256
2020		419	419
2021		181	181
Thereafter		938	938
Total require payments	$ 700	$ 4,416	$ 5,116
Less amounts representing interest (3.5%)	(15)		
Present value of minimum lease payments	685		
Less current maturities	(584)		
Long-term capital lease liability	$ 101		

At September 30, 2017 and December 31, 2016, pump assets obtained under capital leases had an original cost of approximately $14.0 million and $13.9 million, respectively, and accumulated depreciation of $5.3 million and $3.9 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 and nine months ended September 30, 2017 was $0.2 million and $0.7 million, respectively, compared to $0.3 million and $0.8 million for the same three and nine months ended September 30, 2016.

10. Subsequent Events

The Company has evaluated subsequent events through the date of issuance for the unaudited condensed consolidated financial statements as of September 30, 2017.

11. Recent Accounting Pronouncements and Developments

In May 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2017-09, Stock Compensation Scope of Modification Accounting , which provides guidance on which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The new standard is effective for fiscal years beginning after December 15, 2017 (i.e. a January 1, 2018 effective date). The Company believes the adoption will not have a material impact on its consolidated financial statements.

In January 2017, the FASB issued 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 statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606) , which supersedes the revenue recognition requirements in ASC 605, Revenue Recognition , and most industry-specific guidance. ASU 2014-09, along with amendments in 2015 and 2016, focuses on creating a single source of revenue guidance for revenue arising from contracts with customers. Under the new standard, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additionally, the new standard requires that enhanced disclosures about the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, including revenue recognition policies to identify performance obligations, assets recognized from costs incurred to obtain and fulfill a contract, and significant judgments in measurement and recognition. The standard, as amended, will be effective for annual periods beginning after December 15, 2017, including interim periods within that reporting period.

The Company is in the process of evaluating the impact of these changes, which includes a review of existing contracts with customers, an evaluation of the specific terms of those contracts and the appropriate treatment under the new standards, and a comparison of that new treatment to the Company s existing accounting policies to identify differences.

The Company expects that the disclosures in the notes to its consolidated financial statements related to revenue recognition will be significantly expanded under the new standard, specifically regarding quantitative and qualitative information about performance obligations.

The Company anticipates the adoption of ASC 606 using the modified retrospective approach, under which the cumulative effect of the initial application of the new standard will be recognized as an adjustment to the opening balance of retained earnings in the first quarter of 2018. As the Company is still in the process of finalizing its evaluation of ASU 2014-09, along with the subsequent amendments, its initial assessment may change as it refines its systems, processes, controls and assumptions.

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, if any, that the adoption of this guidance will have on its financial position, results of operations, cash flows and/or disclosures.

In March 2016, the FASB issued ASU No. 2016-09, Compensation Stock Compensation (Topic 718) (ASU 2016-09). The guidance changes how companies account for certain aspects of equity-based payments to employees. Entities will be required to recognize income tax effects of awards in the income statement when the awards vest or are settled. The guidance also allows an employer to repurchase more of an employee s shares than it can under current guidance for tax withholding purposes providing for withholding at the employee s maximum rate as opposed to the minimum rate without triggering liability accounting and to make a policy election to account for forfeitures as they occur. The updated guidance is effective for annual periods beginning after December 15, 2016. Effective January 1, 2017, the Company adopted the accounting guidance contained within ASU 2016-09. Thus, the Company recorded a $0.2 million deferred tax asset and a $0.2 million increase to retained earnings on January 1, 2017 to recognize the Company s excess tax benefits that existed as of December 31, 2016 (modified retrospective application).

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

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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. The adoption of this standard is not expected to have a material impact on the Company s consolidated financial position, results of operations, cash flows and/or disclosures.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (ASU 2016-15). The amendments in this ASU introduce clarifications to the presentation of certain cash receipts and cash payments in the statement of cash flows. The primary updates include additions and clarifications of the classification of cash flows related to certain debt repayment activities, contingent consideration payments related to business combinations, proceeds from insurance policies, distributions from equity method investees and cash flows related to securitized receivables. ASU 2016-15 is effective for annual periods beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted, including in interim periods. ASU 2016-15 requires retrospective application to all prior periods presented upon adoption. The Company is currently evaluating the impact, if any, that the adoption of this guidance will have on its cash flows and/or disclosures, however, the Company does not anticipate that the adoption of this new standard will have a material impact on the Company s financial position, results of operations or statements of cash flows upon adoption.

In November 2015, the FASB issued ASU No. 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes (ASU 2015-17), simplifying the balance sheet classification of deferred taxes by requiring all deferred taxes, along with any related valuation allowance, to be presented as noncurrent. ASU 2015-17 is effective for the Company beginning in the first quarter of 2017 and may be applied either prospectively or retrospectively. The Company has chosen to apply this guidance prospectively, thus prior periods were not retrospectively adjusted. The adoption of this guidance resulted in the balance sheet reclassification of $2.7 million of current deferred tax assets to noncurrent.

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, a intend, should, plan, expect, strategy, future, likely, variations of such words, and other similar expression 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. Forward-looking statements include statements relating to future actions, business plans, objectives and prospects, future operating or financial performance. 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, dependency on websites and intellectual property, the ability of the Company to successfully integrate acquired businesses, dependency on key personnel, dependency on banking relations and the ability to comply with Credit Facility covenants, and other risks associated with its 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, 2016 and in other filings made by the Company from time to time with the Securities and Exchange Commission (SEC), including its quarterly reports on Form 10-Q. Our Annual Report on Form 10-K is available on the SEC s EDGAR website at 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, Texas, Georgia and Ontario, Canada. InfuSystem, Inc., our wholly owned subsidiary, is accredited by the Community Health Accreditation Program while First Biomedical, Inc., our wholly owned subsidiary, 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.

InfuSystem Holdings, Inc. Results of Operations for the Three and Nine Months Ended September 30, 2017 compared to the Three and Nine Months Ended September 30, 2016

Net Revenues

Our net revenues for the quarter ended September 30, 2017 were $17.6 million, an increase of $0.4 million, or 2%, compared to $17.2 million for the quarter ended September 30, 2016. During the period, net revenues from rentals increased $0.7 million, or 5%, compared to the same prior year period. The increase in net revenues from rentals can be largely attributed to (i) an overall increase in rental volume of $0.5 million with new and existing sites of therapy and (ii) an increase in pricing and collection impacts of $0.2 million. Net revenues from product sales were $2.3 million, a decrease of $0.3 million compared to the same prior year period.

Our net revenues for the nine months ended September 30, 2017 were $52.2 million, a decrease of $1.5 million, or 3%, over the same prior year period. During the period, net revenues from rentals decreased $2.1 million, or 5%, compared to the same prior year period, largely attributed to (i) changed practices and reduced billing rates due to SE1609 regulatory change of approximately $2.6 million and (ii) pricing and collections impacts of $2.4 million. These were offset by an overall increase in rental volume of $2.9 million with new and existing sites of therapy. Net revenues from product sales were $7.0 million, an increase of $0.7 million, or 11% compared to the same prior year period.

Gross Profit

Gross profit for the quarter ended September 30, 2017 was $11.0 million, an increase of $0.6 million, or 6%, compared to $10.4 million for the quarter ended September 30, 2016. Gross profit, as a percentage of net revenues, for the quarter ended September 30, 2017 was 63%, up from 60% for the same prior year period. The increase in gross profit for the period was largely attributed to the increase in net revenues of $0.4 million for the period, as well as, a decrease of $0.7 million in the costs of pumps sold, which was offset by an increase of $0.5 million in product and supply costs.

Gross profit for the nine months ended September 30, 2017 was $32.0 million, a decrease of $2.1 million, or 6%, compared to the nine months ended September 30, 2016. Gross profit, as a percentage of net revenues, for the nine months ended September 30, 2017 was 61%, down from 64% for the same prior year period. The decrease in gross profit as a percentage of net revenues for the period was largely due to the decrease in net revenues in the period of $1.5 million plus an increase of $0.1 million in product and supply costs, $0.8 million in disposables sold and $0.3 million in service costs, which was offset by a decrease of $0.6 million in costs of pumps sold.

Provision for Doubtful Accounts

Provision for doubtful accounts for the quarter ended September 30, 2017 was $1.3 million, an increase of $0.2 million, or 16%, compared to the quarter ended September 30, 2016. The provision for doubtful accounts was 7% of net revenues at September 30, 2017, compared to 6% for the same prior year period. Bad debt is primarily associated with rental revenues. Provision for doubtful accounts for the nine months ended September 30, 2017 was $4.5 million, an increase of $0.5 million, or 14%, compared to $3.9 million for the nine months ended September 30, 2016. The provision for doubtful accounts was 9% of net revenues at September 30, 2017, compared to 7% for the same prior year period. The increase for both 2017 periods is largely due to a higher mix of patient payors in our rental business, which generally have higher uncollectible rates than commercial payors. This was offset by a decrease in reserves related to our revised billing practices for Medicare accounts as required by SE1609. We now directly bill providers and not third-party payors for SE1609 related services. Because this is a dramatic change from prior practices, we experienced a delay in providers acknowledging and paying under the new model. We continue to see improvements in collections from SE1609 providers since the initial implementation in July 2016, but nonetheless, we have adopted the practice of reserving for all SE1609 accounts receivable aged greater than 120 days. We believe the strategic shift to focusing additional resources on collection efforts will continue to deliver a positive impact with respect to these SE1609 accounts receivable.

Amortization of Intangible Assets

Amortization of intangible assets for the quarter ended September 30, 2017 was $1.4 million, an increase of $0.4 million compared to the same prior year period. Amortization of intangible assets for the nine months ended September 30, 2017 was $4.2 million, an increase of $1.4 million compared to the same prior year period. These increases were largely attributable to the completion of several IT projects that were placed into service and the resulting amortization.

Selling and Marketing Expenses

During the quarter ended September 30, 2017, selling and marketing expenses were $2.3 million, a decrease of $0.2 million, or 9%, compared to the same prior year period. During the nine months ended September 30, 2017, selling and marketing expenses were $7.4 million, a decrease of $0.2 million, compared to $7.6 million for the same prior year period. The decrease for the nine months ended September 30, 2017 versus the same prior year period was largely attributable to decreases in salaries and benefits of $0.3 million, advertising and promotions of $0.1 million and travel and related expenses of $0.2 million, which was offset by an increase in sales commissions of $0.4 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 September 30, 2017, General and Administrative (G&A) expenses were $5.6 million, an increase of $0.3 million, or 6%, compared to the quarter ended September 30, 2016. The increase in G&A expense versus the same prior year period was mainly attributable to increases in stock compensation expense of $0.2 million and outside services of $0.1 million.

During the nine months ended September 30, 2017, G&A expenses were $18.4 million, an increase of 1%, from $18.3 million for the nine months ended September 30, 2016. The increase in G&A expense versus the same prior year period was mainly attributable to an increase in stock compensation expense of $0.1 million and outside services of $0.5 million, offset by decreases in salaries and benefits of $0.4 million and depreciation expense of $0.1 million. Some additional items that added to the overall increase in G&A expense versus the same prior year period were $0.6 million of severance, $0.2 million of legal expenses related to a shareholder lawsuit and $0.3 million of early termination fees related to capital leases repaid in response to the Third Amendment to our Credit Agreement with Chase Bank finalized during the second quarter of 2017.

Other Income and Expenses

During the quarter ended September 30, 2017, we recorded interest expense of $0.4 million, a decrease of less than $0.1 million, or 8%, compared to the same prior year period. During the nine months ended September 30, 2017, we recorded interest expense of $1.0 million, which was consistent with the same prior year period.

Income Taxes

During the three and nine months ended September 30, 2017, we recorded income tax expense of $0.3 million and an income tax benefit of $0.9 million, respectively. During the three and nine months ended September 30, 2016, the Company recorded income tax expenses of $0.1 million and $0.2 million, respectively. Our effective income tax rate for the nine months ended September 30, 2017 was 25.2%.

Liquidity and Capital Resources

We finance our operations and capital expenditures with internally generated cash from operations and borrowings under our Credit Facility. As of September 30, 2017, we had cash and cash equivalents of $0.8 million and $9.0 million of net availability under the Revolver compared to $3.4 million of cash and cash equivalents and $9.9 million of net availability under our Revolver at December 31, 2016. Our liquidity and borrowing plans are established to align with our financial and strategic planning processes and to 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 and acquisitions.

Operating Cash Flow. Cash provided by operating activities for the nine months ended September 30, 2017 was $4.1 million compared to $3.7 million for the nine months ended September 30, 2016. This increase is due to higher amounts of non-cash expenses (such as amortization expenses) and other liabilities in the current period, which were offset by decreases in deferred income taxes and other current liabilities.

Investing Cash Flow. Cash provided by investing activities was $0.7 million for the nine months ended September 30, 2017 compared to cash used of $4.7 million for the nine months ended September 30, 2016. The increase in cash provided was due to a $2.9 million decrease in spending on non-pump assets, the majority of which was a direct result of a more significant investment in IT during the nine months ended September 30, 2016, $1.3 million decrease in cash used to purchase medical equipment and $1.0 million more in cash proceeds from the sales of medical equipment. We purchased $2.6 million of infusion pumps during the nine-month period ended September 30, 2017 to serve new rental business anticipated for the remainder of 2017, compared to $3.8 million of infusion pumps during the nine-month period ended September 30, 2016. We anticipate this downward spend on infusion pumps for the remainder of 2017 to continue when compared to prior year.

Financing Cash Flow. Cash used in financing activities for the nine months ended September 30, 2017 was $7.4 million compared to cash proceeds of $1.2 million for the nine months ended September 30, 2016. This change is primarily attributable to the cash proceeds received as a result of our decision to borrow from the revolving credit line under our Credit Facility during the nine months ended September 30, 2016, as well as, our decision to pay down a majority of our capital lease obligations during the first half of 2017.

Credit Facility. On March 23, 2015, the Company and its direct and indirect subsidiaries entered into a credit agreement with JPMorgan Chase Bank, N.A., as lender (the Chase Credit Agreement). The Chase Credit Agreement originally provided for a Credit Facility consisting of a $27.0 million Term Loan A, up to $8.0 million Term Loan B and a $10.0 million revolving Credit Facility and a maturity date of March 23, 2020. The Credit Facility is collateralized by substantially all of our assets and shares of our subsidiaries and requires us to comply with certain 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 a net worth level.

On December 5, 2016, we entered into a First Amendment to the Chase Credit Agreement to waive certain events of default then existing thereunder, as well as to make certain amendments to the Credit Facility, including but not limited to: (i) restructuring of the Credit Facility that effectively consolidated Term Loan A and Term Loan B into a new single term loan (Term Loan) resulting in a new total drawn amount of $32 million under the Term Loan with the approximately $5 million excess over the current aggregate drawn amounts under Term Loan A and Term Loan B to be available to reduce the Company s drawings under the revolving credit line under the Credit Facility; (ii) extending the maturity date of the Term Loan and the revolving credit line to December 5, 2021; (iii) setting the quarterly mandatory principal payment due on the Term Loan to $1.3 million due on the last business day of each fiscal quarter with any remaining unpaid and outstanding amount due at maturity; and (iv) amending the leverage ratio covenant to provide for the following schedule of maximum permitted ratios: (a) 2.75 to 1.0 at any time on or after December 31, 2015 but prior to March 31, 2017, (b) 2.50 to 1.0 at any time on or after March 31, 2017 but prior to March 31, 2018 or (c) 2.25 to 1.00 at any time on or after March 31, 2018.

On March 22, 2017, we entered into a Second Amendment to the Chase Credit Agreement to make certain amendments to the Credit Facility, including but not limited to: (i) amending the definition of Fixed Charges to increase the Company s ability to prepay its indebtedness under the Credit Facility without negatively impacting its financial covenants; and (ii) amending the leverage ratio covenant to provide for the following schedule of maximum permitted ratios: (a) 2.75 to 1.0 at any time on or after December 31, 2015 but prior to March 31, 2018, (b) 2.50 to 1.0 at any time on or after March 31, 2018 but prior to March 31, 2019 or (c) 2.25 to 1.00 at any time on or after March 31, 2019.

As of March 31, 2017, we breached a financial covenant under our Credit Facility, which resulted in an event of default under the Credit Facility. Specifically, we were not in compliance with the leverage ratio covenant under the Credit Facility. The required maximum leverage ratio under the Credit Facility as of March 31, 2017 was 2.75 compared to an actual ratio of 2.96. We subsequently received a waiver from this breach from the lender on May 10, 2017, which provided a limited, specific and one-time waiver from this breach but did not otherwise modify the terms of the Credit Facility. No fee was paid to the lender in connection with this waiver.

On June 28, 2017, we entered into a Third Amendment to the Chase Credit Agreement to make certain amendments to the Credit Facility, including but not limited to:

(i) restates the chart within the definition of Applicable Rate in Section 1.01 of the Credit Agreement as follows:

Leverage Ratio	CBFR Spread	Eurodollar Spread	Commitment Fee Rate
<u>Level I</u> < 1.5:1.0	-1.00%	2.00%	0.25%
<u>Level II</u> < 2.0:1.0 to 1.0 but ³ 1.5:1.0	-0.75%	2.25%	0.25%
<u>Level III</u> < 2.5:1.0 to 1.0 but ³ 2.0:1.0	-0.50%	2.50%	0.25%
<u>Level IV</u> < 3.0:1.0 to 1.0 but ³ 2.5:1.0	0.00%	2.75%	0.25%
<u>Level V</u> ³ 3.0:1.0	0.25%	3.00%	0.25%

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and further amends the definition of Applicable Rate in Section 1.01 of the Credit Agreement by adding the following to the end thereof: The Applicable Rate will be set at Level V as of the Third Amendment Effective Date, and adjusted for the first time thereafter based on the financial statements required to be delivered hereunder for the fiscal quarter ending June 30, 2017. ;

(ii) amend the definition of Fixed Charge Coverage Ratio in Section 1.01 of the Credit Agreement by adding the phrase (it is acknowledged that, at all times, such unfinanced portion is either a deduction to EBITDA or, if unfinanced portion is ever interpreted to be a negative number, then zero) to follow the phrase therein that reads means, for any period, the ratio of (a) EBITDA minus the unfinanced portion of Capital Expenditures. ;

(iii) amend clause (f)(ii) in the definition of Permitted Acquisition in Section 1.01 of the Credit Agreement by (a) replacing the reference therein to $10,000,000 with $5,000,000 and (b) by replacing the reference therein to $25,000,000 with $12,500,000. ;

(iv) add the following definition of Excess Cash Flow to Section 1.01 of the Credit Agreement as follows:
Excess Cash Flow means, for any fiscal year of the Company, (a) EBITDA for such fiscal year, minus (b) Capital Expenditures made or incurred during such fiscal year minus (c) Fixed Charges for such fiscal year.

(v) restate Section 2.08(b) of the Credit Agreement as follows:
(b) The Borrowers hereby unconditionally agree that the Term A Loans and the Term B Loans shall be replaced and refinanced in full as of the First Amendment Effective Date with a Term Loan in an aggregate amount equal to $32,000,000 made under Section 2.01(d), the Borrowers acknowledge and agree that the principal balance of such Term Loan as of the Third Amendment Effective Date is $30,665,999.98, and the Borrowers hereby unconditionally promise to pay to the Lender the principal amount of the Term Loans made under Section 2.01(d) after the Third Amendment Effective Date as follows: (i) on June 30, 2017, September 30, 2017 and December 31, 2017 in principal installments each in the amount of $577,500 (as adjusted from time to time pursuant to Section 2.09(d) or 2.16(b)), (ii) commencing with the last Business Day of March, 2018 and on the last Business Day of each March, June, September and December thereafter, in consecutive quarterly principal installments each in the amount of $766,650 (as adjusted from time to time pursuant to Section 2.09(d) or 2.16(b)) and (iii) to the extent not previously paid, all unpaid Term Loans shall be paid in full in cash by the Borrowers on the Term Maturity Date.

(vi) restate Section 2.09(d) of the Credit Agreement as follows:
(d) All prepayments required to be made pursuant to Section 2.09(c) shall be applied, first to prepay the Term Loans (and in the event Term Loans of more than one Class shall be outstanding at the time, shall be allocated among the Term Loans pro rata based on the aggregate principal amounts of outstanding Term Loans of each such Class), and such prepayments of the Term Loans shall be applied to reduce the remaining scheduled repayments of Term Loans of each Class in the inverse order of maturity (with any prepayments applied first to the payment at final maturity), second to prepay the Revolving Loans without a corresponding reduction in the Revolving Commitment and third to cash collateralize outstanding LC Exposure. Within each such category, such prepayments shall be applied first to CBFR Loans and then to Eurodollar Loans in order of Interest Period maturities (beginning with the earliest to

mature).

All prepayments required to be made pursuant to Section 2.09(f) shall be applied, first to prepay the Revolving Loans without a corresponding reduction in the Revolving Commitment, second to prepay the Term Loans (and in the event Term Loans of more than one Class shall be outstanding at the time, shall be allocated among the Term Loans pro rata based on the aggregate *principal amounts of outstanding Term Loans of each such Class), and such prepayments of the Term Loans shall be applied to reduce the remaining scheduled repayments of Term Loans of each Class in the inverse order of maturity (with any prepayments applied first to the payment at final maturity), and third to cash collateralize outstanding LC Exposure. Within each such category, such prepayments shall be applied first to CBFR Loans and then to Eurodollar Loans in order of Interest Period maturities (beginning with the earliest to mature).*

(vii) add a new Section 2.09(f) to the Credit Agreement as follows:

(f) Until the latest of the Revolving Credit Maturity Date, the Term A Maturity Date, the Term B Maturity Date or the Term Maturity Date, as the case may be, the Borrowers shall prepay the Obligations as set forth in Section 2.09(d) on the date that is ten days after the earlier of (i) the date on which the Company s annual audited financial statements for the immediately preceding fiscal year are delivered pursuant to Section 5.01 or (ii) the date on which such annual audited financial statements were required to be delivered pursuant to Section 5.01, in an amount equal to:

(I) seventy-five percent (75%) of the Company s Excess Cash Flow for the immediately preceding fiscal year if the Company s Leverage Ratio is greater than or equal to 2.5 to 1.0 for the immediately preceding fiscal year, (II) fifty percent (50%) of the Company s Excess Cash Flow for the immediately preceding fiscal year if the Company s Leverage Ratio is less than 2.5 to 1.0 but greater than or equal to 2.0 to 1.0 for the immediately preceding fiscal year, or (III) zero percent (0%) of the Company s Excess Cash Flow for the immediately preceding fiscal year if the Company s Leverage Ratio is less than 2.0 to 1.0 for the immediately preceding fiscal year. Each Excess Cash Flow prepayment shall be accompanied by a certificate signed by a Financial Officer of the Company certifying the manner in which Excess Cash Flow and the resulting prepayment was calculated, which certificate shall be in form and substance satisfactory to the Lender.

(viii) amend Section 6.04(c) of the Credit Agreement by replacing the reference therein to $5,000,000 with $2,500,000. ;

(ix) restate Sections 6.12(a) and (b) of the Credit Agreement as follows:

(a) <u>Leverage Ratio</u>. The Borrowers will not permit the Leverage Ratio to exceed (i) 4.0 to 1.0 at any time on or after the Effective Date but prior to December 31, 2017, (ii) 3.75 to 1.0 at any time on or after December 31, 2017 but prior to June 30, 2018, (iii) 3.50 to 1.0 at any time on or after June 30, 2018 but prior to December 31, 2018, or (iv) 3.00 to 1.00 at any time on or after December 31, 2018.

(b) <u>Fixed Charge Coverage Ratio</u>. The Borrowers will not permit the Fixed Charge Coverage Ratio to be less than (i) 1.15:1.0 at any time on or after the Effective Date but prior to March 31, 2018, or (ii) 1.25:1.0 at any time on or after March 31, 2018.

As of September 30, 2017, we were in compliance with all such covenants.

Simultaneous with the execution of Third Amendment, we entered into a Patent and Trademark Security Agreement, which replaces the Patent and Trademark Security Agreement entered into on March 23, 2015 at the time we entered into the Credit Agreement. The new Patent and Trademark Security Agreement was revised to make reference to the Third Amendment and we have provided the Lender with updated schedules listing our trademarks, patents, applications for trademarks and patents, and other intellectual properties owned or licensed.

As a result of the changes to the definition of Leverage Ratio and Fixed Charge Coverage Ratio within the Third Amendment, we will have increased flexibility to effect the changes necessary to return us to a strong financial position. The change to the definition of Applicable Rate will effectively increase our interest rate under the Credit Agreement by 50 basis points in the near term, while allowing for us to reduce that rate as our Leverage Ratio declines. The addition of the provision that requires the prepayment of a percentage of our annual Excess Cash Flow will ensure our primary goal remains to reduce the total debt outstanding.

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As of September 30, 2017, Term Loan A under the Credit Facility had a balance of $29.5 million. The availability under the revolving credit line under the Credit Facility is based upon our eligible accounts receivable and eligible inventory and is computed as follows (in thousands):

	September 30, 2017	December 31, 2016
Revolver:		
Gross Availability	$ 9,810	$ 10,000
Outstanding Draws		
Letter of Credit	(750)	
Landlord Reserves	(45)	(45)
Availability on Revolver	$ 9,015	$ 9,955

As of September 30, 2017, 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 LIBOR Plus a margin ranging from 2.00% to 3.00% or (ii) CBFR Loan, which bears interest at a per annum rate equal to the greater of (a) the lender s prime rate or (b) LIBOR for a 30-day interest period plus 2.50%, in each case, plus a margin ranging from -1.00% to 0.25%. The actual rate at September 30, 2017 was 3.99% (LIBOR of 1.24% plus 2.75%).

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 MD&A section in our annual report on Form 10-K for the year ended December 31, 2016, with the exception of our adoption of ASU s 2016-09 and 2015-17. See Note 11 for further details.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk
InfuSystem 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
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 Principal Executive Officer (PEO) and Chief Financial Officer (CFO), as appropriate, to allow timely decisions regarding required disclosures. Our PEO 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.

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.

As a result of the restatement of our financial statements as of December 31, 2015 and the first and second quarters of 2016, we are currently involved in a class-action lawsuit filed by shareholders. On November 8, 2016, a purported shareholder of the Company filed a putative class-action lawsuit in the U.S. District Court for the Central District of California (the Court) (Case No. 2:16-cv-08295-ODW) against us and two individual defendants: Eric Steen, our former Chief Executive Officer, President and Director; and Jonathan Foster, our former Chief Financial Officer. The complaint alleges that the defendants issued materially false and misleading statements in and/or omitted material facts from documents filed with the SEC between May 12, 2015 and November 7, 2016. The complaint asserts claims against all defendants under the antifraud provisions of the federal securities laws and against Messrs. Steen and Foster as control persons. The complaint seeks compensatory damages for the putative class, prejudgment and post-judgment interest, attorneys fees and other costs. Two other shareholders subsequently filed motions for appointment as lead plaintiff and for appointment of their attorneys as lead counsel for the putative class. On February 17, 2017, the Court appointed a lead plaintiff for the putative class. On April 18, 2017, the lead plaintiff filed an amended class-action complaint with the Court. On June 19, 2017, the Company and all defendants filed a Motion to Dismiss the amended complaint, and that motion is now fully briefed and is pending before the Court.

We believe that the allegations against us and our officers are without merit and intend to vigorously defend against the claims asserted. The ultimate resolution of this matter cannot be predicted, however, and it is not possible at this time for us to estimate any probable loss or range of losses because of the preliminary nature of the matter.

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, 2016.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

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Item 6. Exhibits

Exhibits

31.1*	Certification of Principle 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 Principle 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: November 10, 2017	/s/ Gregg Lehman Gregg Lehman Executive Chairman of the Board Director (Principal Executive Officer)
Date: November 10, 2017	/s/ Christopher Downs Christopher Downs Chief Financial Officer (Interim) (Principal Financial Officer)
Date: November 10, 2017	/s/ Trent N. Smith Trent N. Smith Chief Accounting Officer (Principal Accounting Officer)