InfuSystem Holdings, Inc
Form 10-Q
November 14, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
for the quarterly period ended September 30, 2011

or

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

Commission File Number: 001-35020

INFUSYSTEM HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**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 including zip code)

(248) 291-1210

(Registrant s Telephone Number, Include Area Code)

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

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

Large Accelerated Filer ¨	Accelerated Filer ¨
Non-Accelerated Filer ¨ (Do not check if smaller reporting company)	Smaller reporting company x

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

As of November 8, 2011, 21,244,916 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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Item 1. Financial Statements

INFUSYSTEM HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)	September 30, 2011 (Unaudited)	December 31, 2010
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 433	$ 5,014
Accounts receivable, less allowance for doubtful accounts of $1,719 and $1,796 at September 30, 2011 and December 31, 2010, respectively	7,983	6,679
Inventory	2,155	1,699
Prepaid expenses and other current assets	736	750
Deferred income taxes	1,249	1,147
Total Current Assets	12,556	15,289
Property & equipment, net	16,883	16,672
Deferred debt issuance costs, net	477	658
Goodwill		64,092
Intangible assets, net	28,683	33,252
Deferred income taxes	20,135	
Other assets	758	401
Total Assets	$ 79,492	$ 130,364
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	$ 1,945	$ 2,016
Other current liabilities	2,061	4,631
Derivative liabilities	302	183
Current portion of long-term debt	6,673	5,551
Total Current Liabilities	10,981	12,381
Long-term debt, net of current portion	24,126	26,646
Deferred income taxes	3,250	5,788
Other liabilities	414	406
Total Liabilities	$ 38,771	$ 45,221
Stockholders Equity		
Preferred stock, $.0001 par value: authorized 1,000,000 shares; none issued		
Common stock, $.0001 par value; authorized 200,000,000 shares; issued 21,244,916 and 21,163,337, respectively; outstanding 21,048,076 and 21,117,516, respectively	1	2
Additional paid-in capital	87,362	87,004
Accumulated other comprehensive loss	(165)	(64)
Retained deficit	(46,477)	(1,799)
Total Stockholders Equity	40,721	85,143
Total Liabilities and Stockholders Equity	$ 79,492	$ 130,364

See accompanying notes to consolidated financial statements

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INFUSYSTEM HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	Three Months Ended September 30		Nine Months Ended September 30	
(in thousands, except share data)	**2011**	**2010**	**2011**	**2010**
Net revenues	$ 14,505	$ 12,733	$ 40,595	$ 34,154
Cost of revenues:				
Cost of revenues Product, service and supply costs	2,346	2,130	6,662	5,524
Cost of revenues Pump depreciation, sales and disposals	2,927	1,706	6,659	4,094
Gross profit	9,232	8,897	27,274	24,536
Selling, general and administrative expenses:				
Provision for doubtful accounts	884	986	3,033	3,454
Amortization of intangibles	683	624	1,992	1,615
Asset impairment charges	23,379		67,592	
Selling and marketing	2,320	1,702	7,089	4,739
General and administrative	4,460	4,757	13,227	12,662
Total sales, general and administrative:	31,726	8,069	92,933	22,470
Operating (loss) income	(22,494)	828	(65,659)	2,066
Other loss:				
Gain (loss) on derivatives		250	83	(210)
Interest expense	(541)	(609)	(1,646)	(2,781)
Gain on extinguishment of long term debt				1,118
Other expense	(118)		(118)	
Total other loss	(659)	(359)	(1,681)	(1,873)
(Loss) income before income taxes	(23,153)	469	(67,340)	193
Income tax (expense) benefit	6,530	(295)	22,661	112
Net (loss) income	$ (16,623)	$ 174	$ (44,679)	$ 305
Net (loss) income per share:				
Basic	$ (0.79)	$ 0.01	$ (2.12)	$ 0.02
Diluted	$ (0.79)	$ 0.01	$ (2.12)	$ 0.01
Weighted average shares outstanding:				
Basic	21,067,502	19,904,648	21,076,241	19,539,326
Diluted	21,064,502	21,647,904	21,076,241	20,742,765

See accompanying notes to consolidated financial statements

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INFUSYSTEM HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(in thousands)	Nine Months Ended September 30 2011	2010
OPERATING ACTIVITIES		
Net (loss) income	$ (44,679)	$ 305
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
(Gain) loss on derivative liabilities	(83)	210
Gain on extinguishment of long-term debt		(1,118)
Provision for doubtful accounts	3,033	3,454
Depreciation	4,890	3,869
Net book value of pumps sold from fixed assets	2,111	510
Amortization of intangible assets	1,992	1,615
Asset impairment charges	67,592	
Amortization of deferred debt issuance costs	181	915
Stock-based compensation	921	1,811
Deferred income taxes	(22,673)	(519)
Changes in assets and liabilities, exclusive of effects of acquisitions:		
Increase in accounts receivable, net of provision	(4,337)	(3,556)
Increase in other current assets	(442)	(89)
(Increase) decrease in other assets	(70)	170
(Decrease) increase in accounts payable and other liabilities	(4,739)	553
Decrease in derivative liabilities from termination of interest rate swap		(365)
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,697	7,765
INVESTING ACTIVITIES		
Capital expenditures	(3,295)	(1,392)
Acquisition of intangible assets	(942)	
Cash paid for acquisition, net of cash acquired		(16,418)
NET CASH USED IN INVESTING ACTIVITIES	(4,237)	(17,810)
FINANCING ACTIVITIES		
Principal payments on term loan	(3,287)	(21,596)
Cash proceeds from loans	551	30,000
Capitalized debt issuance costs		(808)
Common stock repurchased to satisfy statutory witholding on stock based compensation		(38)
Treasury shares repurchased	(343)	
Principal payments on capital lease obligations	(962)	(571)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(4,041)	6,987
Net change in cash and cash equivalents	(4,581)	(3,058)
Cash and cash equivalents, beginning of period	5,014	7,750
Cash and cash equivalents, end of period	$ 433	$ 4,692
SUPPLEMENTAL DISCLOSURES		

Cash paid for interest (including swap payments)	$ 1,465	$ 1,873
Cash paid for income taxes	$ 242	$ 14
NON-CASH TRANSACTIONS		
Additions to property (a)	$ 103	$ 405
Property acquired pursuant to a capital lease	$ 2,300	$ 1,869
Origination of long term debt	$	$ 750
Current assets assumed in acquisition (b)	$	$ 2,399
Current liabilities assumed in acquisition (b)	$	$ 438
Deferred tax liability assumed in acquisition (b)	$	$ 2,754
Deferred tax asset assumed in acquisition (b)	$	$ 30
Gross issuance of vested restricted shares (number of shares)	182	

(a) Amounts consist of current liabilities for net property that have not been included in investing activities. These amounts have not been paid for as of September 30, but will be included as a cash outflow from investing activities for capital expenditures when paid.

(b) See Note 3 - Acquisitions

See accompanying notes to consolidated financial statements

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INFUSYSTEM HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. Basis of Presentation and Nature of Operations

The information in this Quarterly Report on Form 10-Q includes the financial position of InfuSystem Holdings, Inc. and its consolidated subsidiaries (the Company) as of September 30, 2011 and December 31, 2010, the results of operations for the three and nine months ended September 30, 2011 and 2010, and cash flows for the nine months ended September 30, 2011 and 2010. In the opinion of the Company, the consolidated statements for the all periods presented include all adjustments, consisting of normal recurring adjustments, necessary to present a fair statement of the results for such periods. The accompanying unaudited financial statements should be read in conjunction with the December 31, 2010 annual report on Form 10-K.

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP). All intercompany accounts and transactions have been eliminated. Results of operations for the three and nine months ended September 30, 2011 are not necessarily indicative of the results for an entire year.

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

On June 15, 2010, the Company entered into a stock purchase agreement with the shareholders of First Biomedical, Inc., (First Biomedical) a Kansas corporation, to acquire all of the issued and outstanding stock of First Biomedical and completed the acquisition simultaneously. First Biomedical sells, rents, services and repairs new and pre-owned infusion pumps and other medical equipment. First Biomedical also sells a variety of primary and secondary tubing, cassettes, catheters and other disposable items that are utilized with infusion pumps. For more information, refer to the Acquisition discussion included in Note 3.

The Company supplies electronic ambulatory infusion pumps and associated disposable supply kits to oncology practices, infusion clinics and hospital outpatient chemotherapy clinics. These pumps and supplies are utilized primarily by colorectal cancer patients who receive a standard of care treatment that utilizes continuous chemotherapy infusions delivered via electronic ambulatory infusion pumps. The Company obtains an assignment of insurance benefits from the patient, bills the insurance company or patient accordingly, and collects payment. The Company provides pump management services for the pumps and associated disposable supply kits to over 1,300 oncology practices in the United States. The Company retains title to the pumps during this process.

In addition, the Company sells or rents new and pre-owned pole mounted and ambulatory infusion pumps to, and provides 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. The Company also provides these products and services to customers in the small-hospital market.

The Company purchases new and pre-owned pole mounted and ambulatory infusion pumps from a variety of sources on a non-exclusive basis. The Company repairs, refurbishes and provides biomedical certification for the devices as needed. The pumps are then available for sale, rental or to be used within the Company s ambulatory infusion pump management service.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all wholly owned organizations. All intercompany transactions and account balances have been eliminated in consolidation.

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Segments

The Company operates in one business segment based on management s view of its business for purposes of evaluating performance and making operating decisions, representing the only reportable segment in accordance with Accounting Standard Codification (ASC) 280, *Segment Reporting.*

The Company utilizes shared services including but not limited to, human resources, payroll, finance, sales, pump repair and maintenance services, as well as certain shared assets and sales, general and administrative costs. The Company is in the process of transitioning more shared services and synergies since the acquisition of First Biomedical. The Company s approach is to make operational decisions and assess performance based on delivering products and services that together provide solutions to our customer base, utilizing functional management structure and shared services where possible. Based upon this business model, the chief operating decision maker only reviews consolidated financial information.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates, assumptions and judgments that affect the amounts reported in the financial statements, including the notes thereto. The Company considers critical accounting policies to be those that require more significant judgments and estimates in the preparation of its consolidated financial statements. These include the following: revenue recognition, which includes contractual adjustments, accounts receivable and allowance for doubtful accounts, sales return allowances, inventory reserves, income taxes and goodwill and other intangibles valuation. Management relies on historical experience and other assumptions believed to be reasonable in making its judgment and estimates. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. The Company maintains its cash and cash equivalents primarily with two financial institutions and is fully insured with the Federal Deposit Insurance Corporation (FDIC) under the Temporary Liquidity Guarantee Program until December 31, 2012.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are reported at the estimated net realizable amounts from patients, third-party payors and other direct pay customers for goods provided and services rendered. The Company performs periodic analyses to assess the accounts receivable balances. It records an allowance for doubtful accounts based on the estimated collectability of the accounts such that the recorded amounts reflect estimated net realizable value. Upon determination that an account is uncollectible, the account is written-off and charged to the allowance.

Accounts receivable are reduced by an allowance for amounts that could become uncollectible in the future. The Company s estimate for its allowance for doubtful accounts is based upon management s assessment of historical and expected net collections by payor. Due to continuing changes in the health care industry and third-party reimbursement it is possible that management s estimates could change in the near term, which could have an impact on its financial position, results of operations and cash flows.

Inventory

Our inventory consists of infusion pumps and related parts and supplies and is stated at the lower of cost, determined on a first in, first out basis, or market. The Company periodically performs an analysis of slow moving inventory and records a reserve based on estimated obsolete inventory.

Property and Equipment

Property and equipment is stated at acquired cost and depreciated using the straight-line method over the estimated useful lives of the related assets, ranging from three to seven years. Rental equipment, consisting primarily of infusion pumps that the Company acquires from third-parties, is depreciated over five years. Information Technology (IT) software and hardware are depreciated over three years. Leasehold improvements are amortized using the straight-line method over the life of the asset or the remaining term of the lease, whichever is shorter. Maintenance and minor repairs are charged to operations as incurred. When assets are sold, or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is recorded in the current period.

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Long-Lived Assets

The Company accounts for the impairment and disposition of long-lived assets in accordance with ASC 360, *Property, Plant and Equipment.* This standard addresses financial accounting and reporting for the impairment of long-lived assets and for the disposal of long-lived assets. In accordance with this standard, long-lived assets to be held are reviewed for events or changes in circumstances, which indicate that their carrying value may not be recoverable. If an impairment indicator exists, the Company assesses the asset or asset group for recoverability. Recoverability of these assets is determined based upon the expected undiscounted future net cash flows from the operations to which the assets relate, utilizing management s best estimates, appropriate assumptions and projections at the time. If the carrying value is determined not to be recoverable from future operating cash flows, the asset is deemed impaired and an impairment loss would be recognized to the extent the carrying value exceeded the estimated fair market value of the asset. The Company reviews the carrying value of long-lived assets if there is an indicator of impairment. As described below, the Company performed an impairment analysis on all of its assets and determined that there was no impairment of property, plant and equipment as of September 30, 2011.

Goodwill Valuation

Goodwill arising from business combinations represents the excess of the purchase price over the estimated fair value of the net assets of the businesses acquired.

In accordance with the provisions of ASC 350, *Intangibles Goodwill and Other,* goodwill is tested annually for impairment or more frequently if circumstances indicate the possibility of impairment. Significant judgments required to estimate fair value include estimating future cash flows, and determining appropriate discount rates, growth rates and other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value which could trigger impairment. The Company performed the annual impairment test at October 31, 2010, and determined there was no impairment of goodwill.

As of September 30, 2011, based on a significant decline in the Company s market capitalization, we concluded that there was an indicator to require us to perform an interim goodwill impairment analysis and as a result, we concluded that an impairment loss was probable and could be reasonably estimated. For more information, refer to the Goodwill and Intangible Assets discussion included in Note 5.

Intangible Assets

Intangible assets consist of trade names, physician and customer relationships, non-compete agreements, and software. The trade names, physician and customer relationships and non-compete agreements arose from the acquisitions of InfuSystem and First Biomedical. The Company amortizes the value assigned to the physician and customer relationships on a straight-line basis over the period of expected benefit, which is 15 years. The acquired physician and customer relationship base represents a valuable asset of InfuSystem due to the expectation of future business opportunities to be leveraged from the existing relationship with each physician and customer. InfuSystem has long-standing relationships with numerous oncology clinics, physicians, home care and home infusion providers, skilled nursing facilities, pain centers and others. These relationships are expected, on average, to have a 15 year useful life, based on minimal attrition experienced to date by the Company and expectations of continued minimal attrition. Non-compete agreements are amortized on a straight-line basis over five years and software is amortized on a straight-line basis over three years. Management tests non-amortizable intangible assets (i.e., trade names such as InfuSystem) for impairment in accordance with ASC 350. The Company performed the annual impairment test at October 31, 2010, and determined there was no impairment.

As of September 30, 2011, based on a significant decline in our market capitalization, the Company concluded that there was an indicator to require us to perform an interim indefinite lived intangibles impairment analysis relating to trade names and as a result, we concluded that an impairment loss was probable and could be reasonably estimated. For more information, refer to the Goodwill and Intangible Assets discussion included in Note 5.

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Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss consists only of the unrealized loss on an interest rate swap in place as of September 30, 2011, net of taxes. For more information on the interest rate swap, refer to Note 6. During the three months ended September 30, 2011, there was a comprehensive loss of $107 thousand related to an unrealized loss on the swap. The tax impact was $40 thousand leaving a net other comprehensive loss of $67 thousand. During the nine months ended September 30, 2011, there was a comprehensive loss of $203 thousand related to the unrealized loss on the swap. The tax impact on the loss was $102 thousand, leaving a net other comprehensive loss of $101 thousand. The net accumulated other comprehensive loss was $165 thousand as reflected in the Company s consolidated balance sheet as of September 30, 2011. The following table summarizes comprehensive loss for the applicable periods (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net (loss) income	$ (16,623)	$ 174	$ (44,679)	$ 305
Accumulated other comprehensive (loss) on derivatives, net of taxes	(67)	(183)	(101)	(183)
Total comprehensive (loss) income	$ (16,690)	$ (9)	$ (44,780)	$ 122

Revenue Recognition

The majority of the Company s revenue is rental revenue in the oncology market. Revenues are recognized predominantly under fee for service arrangements through equipment that the Company rents to patients. The Company recognizes revenue only when all of the following criteria are met: 1) persuasive evidence of an arrangement exists, 2) services have been rendered, 3) the price to the customer is fixed or determinable and 4) collectability is reasonably assured. Persuasive evidence of an arrangement is determined to exist, and collectability is reasonably assured, when the Company receives 1) a physician s written order and assignment of benefits, signed by the physician and patient, respectively, and the Company has 2) verified actual pump usage and 3) insurance coverage. The Company recognizes rental revenue from electronic infusion pumps as earned, normally on a month-to-month basis. Pump rentals are billed at the Company s established rates, which often differ from contractually allowable rates provided by third-party payors such as Medicare, Medicaid and commercial insurance carriers. All billings to third party payors are recorded net of provision for contractual adjustments to arrive at net revenues.

Due to the nature of the industry and the reimbursement environment in which the Company operates, certain estimates are required to record net revenues and accounts receivable at their net realizable values. Inherent in these estimates is the risk that they will have to be revised or updated as additional information becomes available. Specifically, the complexity of many third-party billing arrangements and the uncertainty of reimbursement amounts for certain services from certain payors may result in adjustments to amounts originally recorded. Due to continuing changes in the health care industry and third-party reimbursement, it is possible that management s estimates could change in the near term, which could have an impact on our results of operations and cash flows.

The Company s largest payor is Medicare, which accounted for approximately 32% and 31% of its gross billings for the nine months ended September 30, 2011 and 2010, respectively. The Company has contracts with various individual Blue Cross/Blue Shield affiliates which in the aggregate accounted for approximately 21% and 23% of its gross billings for the nine months ended September 30, 2011 and 2010, respectively. No individual payor (other than Medicare and the Blue Cross/Blue Shield entities) accounts for greater than approximately 6% of the Company s gross billings.

The Company recognizes revenue for selling, renting and servicing new and pre-owned infusion pumps and other medical equipment to oncology practices as well as other alternate site settings including home care and home infusion providers, skilled nursing facilities, pain centers and others when 1) persuasive evidence of an arrangement exists, 2) services have been rendered, 3) the price to the customer is fixed or determinable and 4) collectability is reasonably assured. The Company performs an analysis to estimate sales returns and records an allowance. This estimate is based on historical sales returns.

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Income Taxes

The Company accounts for income taxes in accordance with ASC 740, *Income Taxes,* which requires that the Company recognize deferred tax liabilities and assets, based on the differences between the financial statement carrying amounts and the tax basis of assets and liabilities, using enacted tax rates in effect in the years the differences are expected to reverse. Deferred income tax (expense) benefit results from the change in net deferred tax assets or deferred tax liabilities. A valuation allowance is recorded when, in the opinion of management, it is more likely than not that some or all of any deferred tax assets will not be realized. For more information, refer to the Income Taxes discussion included in Note 8.

Share Based Payment

ASC 718, *Stock Compensation,* requires all entities to recognize compensation expense in an amount equal to the fair value of share based payments made to employees, among other requirements. Under the fair value based method, compensation cost is measured at the grant date based on the fair value of the award and is recognized on a straight-line basis over the award vesting period. Accordingly, share based payments issued to officers and directors are measured at fair value and recognized as expense over the related vesting periods.

In 2007, the Company adopted the 2007 Stock Incentive Plan (the Plan) providing for the issuance of a maximum of 2,000,000 shares of common stock in connection with the grant of stock-based or stock-denominated awards. In addition, the Company has made certain grants of restricted stock outside of the Plan.

Share based compensation expense recognized for the three and nine months ended September 30, 2011 was $419 thousand and $921 thousand, respectively, compared to $814 thousand and $1.8 million for the three and nine months ended September 30, 2010, respectively.

Warrants and Derivative Financial Instruments

On April 18, 2006, the Company consummated its initial public offering (IPO) of 16,666,667 units. Each unit consists of one share of common stock and two redeemable common stock purchase warrants. Each warrant entitles the holder to purchase from the Company one share of its common stock at an exercise price of $5.00.

The Warrant Agreement provides for the Company to register the shares underlying the warrants in the absence of the Company s ability to deliver registered shares to the warrant holders upon warrant exercise.

ASC 815 requires freestanding derivative contracts that are settled in a company s own stock, including common stock warrants, to be designated as equity instruments, assets or liabilities. Under the provisions of this standard, a contract designated as an asset or a liability must be carried at its fair value on a company s balance sheet, with any changes in fair value recorded in the company s results of operations. A contract designated as an equity instrument must be included within equity and no fair value adjustments are required from period to period.

The 8,329,638 remaining warrants issued in connection with the IPO and overallotment to purchase common stock expired on April 11, 2011 and the Company recorded a realized gain of $83 thousand, which is included on the gain in derivatives line item on the income statement, for the nine months ended September 30, 2011.

ASC 815 requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value.

Cash Flow Hedge

The Company is exposed to risks associated with future cash flows related to the variability of the interest rate on its term loan with Bank of America. In order to manage the exposure of these risks, the Company enters into interest rate swaps. On July 20, 2010, the Company entered into an interest rate swap and designated the swap as a cash flow hedge. In accordance with ASC 815, the fair value of the swap is shown on the Company s consolidated balance sheet within derivative liabilities, unrealized changes in the fair value are included in accumulated other comprehensive loss within the stockholders equity section on the Company s consolidated balance sheet and any realized changes would be included in the Company s consolidated statement of operations within interest expense.

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Deferred Debt Issuance Costs

Capitalized debt issuance costs as of September 30, 2011 and December 31, 2010 relate solely to the Company s Bank of America credit facility. The Company classifies the costs related to the Bank of America credit facility as non-current assets and amortizes them using the interest method through the maturity date of June 2014. For a further discussion of the Company s deferred debt issuance costs, see Note 7.

Earnings Per Share

Basic (loss) income per share is computed by dividing net loss 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	
	2011	2010	2011	2010
Numerator:				
Net (loss) income *(in thousands)*	$ (16,623)	$ 174	$ (44,679)	$ 305
Denominator:				
Weighted average common shares outstanding:				
Basic	21,067,502	19,904,648	21,076,241	19,539,326
Dilutive effect of non-vested awards		1,743,256		1,203,439
Diluted	21,067,502	21,647,904	21,076,241	20,742,765
Net (loss) income per share:				
Basic	$ (0.79)	$ 0.01	$ (2.12)	$ 0.02
Diluted	$ (0.79)	$ 0.01	$ (2.12)	$ 0.01

For the three and nine months ended September 30, 2011 the following stock awards were not included in the calculation because they would have an anti-dilutive effect: 130,479 in stock options and 2,568,750 in unvested restricted shares. For the three and nine months ended September 30, 2010 the following warrants and stock awards were not included in the calculation because they would have an anti-dilutive effect: 8,329,638 outstanding warrants issued in connection with the IPO, 1,142,858 warrants issued privately and 100,479 in vested stock options.

Recent Accounting Pronouncements

In May 2011, the FASB issued Accounting Standards Update (ASU) 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS. The amendments in this update generally represent clarifications of ASC 820, but also include some instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. This update results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP and IFRS. The amendments in this update are to be applied prospectively. The amendments are effective for the Company during interim and annual periods beginning after December 15, 2011. The Company is currently evaluating this pronouncement, but does not anticipate adoption to have a material impact to the Company s consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income (ASU 2011-05). ASU 2011-05 eliminates the option to report other comprehensive income and its components in the statement of stockholders equity and requires the presentation of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. This update is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 and should be applied retrospectively. The adoption of ASU 2011-05 is not expected to have a material effect on the Company s consolidated financial statements, but may require a change in the presentation of the Company s comprehensive income from the notes of the consolidated financial statements, where it is currently disclosed, to the face of the consolidated financial statements.

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On September 15, 2011, the FASB issued an ASU 2011-08, Intangibles Goodwill and Other (Topic 350) Testing Goodwill for Impairment. The Board s objective was to simplify goodwill impairment testing by permitting assessment of qualitative factors to determine whether events and circumstances lead to the conclusion that it is necessary to perform the two-step goodwill impairment test currently required under Topic 350, Intangibles Goodwill and Other. Currently, Topic 350 requires entities to test goodwill on an annual basis by comparing the fair value of a reporting unit to its carrying value including goodwill (Step one). The second part of the test must be performed to measure the amount of impairment if the carrying value of a reporting unit exceeds the fair value under Step one. Under the amendment, entities are not required to calculate the fair value of a reporting unit unless they conclude that it is more likely than not that the unit s carrying value is greater than its fair value based on an assessment of events and circumstances. The more likely than not threshold is when there is a likelihood of more than 50% that a reporting unit s carrying value is greater than its fair value. The Company is currently evaluating this pronouncement but does not anticipate adoption to have a material impact to the Company s consolidated financial statements.

Subsequent events

The Company adopted the provisions of ASC 855, *Subsequent Events* effective June 15, 2009 and management has concluded that there are no significant subsequent events requiring disclosure as of the date the consolidated financial statements. The Company has evaluated subsequent events through the date of approval of the consolidated financial statements by the Board on November 10, 2011

3. Acquisitions

Entry into a Material Definitive Agreement

On June 15, 2010, the Company entered into a stock purchase agreement with the shareholders of First Biomedical, Inc., a Kansas corporation, (First Biomedical) to acquire all of the issued and outstanding stock of First Biomedical and completed the acquisition for total consideration of $17.4 million. Included in the consideration is $16.7 million paid in cash and a $750 thousand seller note described in further detail below.

First Biomedical sells, rents, services and repairs new and pre-owned infusion pumps and other medical equipment. First Biomedical also sells a variety of primary and secondary tubing, cassettes, catheters and other disposable items that are utilized with infusion pumps. Headquartered in Olathe, KS, with additional facilities in California and Toronto, First Biomedical is a leading provider to alternate site healthcare facilities and hospitals in the United States and Canada. The acquisition of First Biomedical allows the Company to expand its offerings to existing customers with the addition of biomedical service and repair, while simultaneously bolstering the growth of infusion pump sales within the oncology space and beyond.

First Biomedical s results of operations are included in the Company s consolidated statements of operations from the acquisition date.

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Purchase Price Allocation

Pursuant to ASC 805, *Business Combinations,* the purchase price has been allocated to the assets acquired and liabilities assumed based upon their estimated fair values as of the acquisition date. The purchase price allocation was primarily based upon a valuation using income and cost approaches, and management s estimates and assumptions. The excess of the purchase price over the net tangible and identifiable intangible assets was recorded as goodwill. For tax purposes, goodwill consists of both identifiable intangible assets (customer relationships and non-competition agreements from the table below) and unidentifiable intangible assets (goodwill from the table below). Goodwill is expected to be partially deductible for tax purposes. The purchase price allocation is based on a preliminary analysis and is subject to further adjustments. The allocation of the purchase price to the fair values of the assets acquired and liabilities assumed as of the transaction date is presented below (in thousands):

Current assets	$ 2,429
Property and equipment	4,772
Goodwill	7,512
Customer relationships	5,000
Non-competition agreements	760
Other assets	131
Current liabilities	(438)
Deferred tax liability	(2,754)
Total purchase price	$ 17,412

The stock purchase agreement provided for an adjustment to the purchase price based on final working capital as of the closing balance sheet, which was finalized during the year ended December 31, 2010 and resulted in an additional payment of $199 thousand, increasing the total purchase price.

Acquired property and equipment are being depreciated on a straight-line basis with estimated remaining lives ranging from 1 year to 14.5 years. Intangible assets are being amortized on a straight-line basis with estimated remaining lives ranging from 5 to 15 years reflecting the expected future value.

Seller Note

Pursuant to the terms of the Stock Purchase Agreement, as of the date of the acquisition the Company entered into a subordinated promissory note with the former majority shareholder of First Biomedical (the Seller) in the amount of $750 thousand. In accordance with the note, the Company will pay the Seller in equal installments over 24 months, which includes annual interest of 5%. As of September 30, 2011 the outstanding principal due on the note was $290 thousand.

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4. Property and Equipment

Property and equipment consisted of the following as of September 30, 2011 and December 31, 2010 (amounts in thousands):

	September 30, 2011	December 31, 2010
Pump equipment	$ 32,497	$ 28,037
Furniture, fixtures, and equipment	2,035	1,894
Accumulated depreciation	(17,649)	(13,259)
Total	$ 16,883	$ 16,672

Included in pump equipment above is $6.8 million and $4.6 million, as of September 30, 2011 and December 31, 2010, respectively, worth of pumps obtained under various capital leases. Included in accumulated depreciation above are $2.2 million and $970 thousand, of depreciation expense as of September 30, 2011 and December 31, 2010, respectively, associated with the same capital leases. Under the terms of all such capital leases, the Company does not presently hold title to these pumps and will not obtain title until such time as the capital lease obligations are settled in full.

Depreciation expense for the three and nine months ended September 30, 2011 was $1.7 million and $4.9 million, respectively. Depreciation expense for the three and nine months ended September 30, 2010 was $1.5 million and $3.9 million, respectively. For all periods these expenses were recorded in cost of revenues and general and administrative expenses, for pump equipment and other fixed assets, respectively.

5. Goodwill and Intangible Assets

In accordance with the provisions of ASC 350, *Intangibles Goodwill and Other*, we apply a fair value based impairment test to the net book value of goodwill and indefinite-lived assets on an annual basis and, if certain events or circumstances indicate that an impairment loss may have been incurred, on an interim basis. The analysis of potential impairments of goodwill requires a two-step process. The first step is an estimation of fair value of the Company. If step one indicates that impairment potentially exists, the second step is performed to measure the amount of impairment, if any. Impairment exists when the fair value of goodwill or indefinite-lived assets is less than the carrying value.

As of June 30, 2011, based on a combination of factors, including a decline in our market capitalization, updated business forecasts, and the expiration of our warrants, we concluded that there were sufficient indicators to require us to perform an interim goodwill and indefinite lived intangibles impairment analysis. For the purposes of the analysis performed during the second quarter of 2011, our estimates of fair value were based on a combination of the income approach, which estimates the fair value based on the future discounted cash flows, and the market approach, which estimates the fair value based on comparable market prices. We concluded that an impairment loss was probable and could be reasonably estimated. Accordingly, we recorded $44.2 million for non-cash asset impairment charge.

As of September 30, 2011, based on a significant decline in our market capitalization, we concluded that there was an indicator to require us to perform an interim goodwill and indefinite lived intangibles impairment analysis and as a result, we concluded that an impairment loss was probable and could be reasonably estimated. For the purposes of the analysis performed during the third quarter of 2011, our estimates of fair value were based on a combination of the income approach, which estimates the fair value based on the future discounted cash flows and the market approach which estimates the fair value based on comparable market prices. Accordingly, for the three months ended September 30, 2011, we recorded $23.4 million for non-cash asset impairment shares representing our best estimate of the loss. This estimate was based on significant unobservable inputs and would have been considered a level 3 under ASC 820.

Based on the impairment analysis performed by the Company as of September 30, 2011, the following table outlines the impairment charges by asset category (in thousands):

	Goodwill	Trade Names
Value as of December 31, 2010	$ 64,092	$ 5,500
Impairment charge	(42,813)	(1,400)

Value as of June 30, 2011	21,279	4,100
Impairment charge	(21,279)	(2,100)
Value as of September 30, 2011	$	$ 2,000

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The following table presents the methods used to establish fair value measurements for Trade names (in thousands):

		Fair Value Measurements at Reporting Date Using		
Description	September 30, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Trade names	$ 2,000	$	$	$ 2,000
Total	$ 2,000	$	$	$ 2,000

In accordance with ASC 820, Fair Value Measurements and Disclosures, the estimated fair value of the trade names were estimated based primarily upon discounted cash flow methodologies reflecting the Company s own assumptions resulting in a Level 3 classification.

Identifiable Intangible Assets

The carrying amount and accumulated amortization of intangible assets as of September 30, 2011 and December 31, 2010 were as follows (in thousands):

	September 30, 2011	December 31, 2010
Nonamortizable intangible assets		
Trade names	$ 2,000	$ 5,500
Amortizable intangible assets		
Physician and customer relationships	32,864	32,400
Non-competition agreements	848	760
Software	1,376	980
Total nonamortizable and amortizable intangible assets	37,088	39,640
Less accumulated amortization	(8,405)	(6,388)
Total identifiable intangible assets	$ 28,683	$ 33,252

Amortization expense for intangible assets for the three and nine months ended September 30, 2011 was $683 thousand and $2.0 million, respectively. Amortization expense for intangible assets for the three and nine months ended September 30, 2010 was $624 thousand and $1.6 million, respectively. The expenses for all periods were recorded in operating expenses. Expected annual amortization expense for intangible assets recorded as of September 30, 2011 is as follows (in thousands):

	2011	2012	2013	2014	2015
Amortization expense	$ 2,772	$ 2,766	$ 2,635	$ 2,397	$ 2,343

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6. Warrants and Derivative Financial Instruments

The Company has determined that the warrants discussed in Note 2, issued in connection with the IPO including the Overallotment Units, should be classified as liabilities in accordance with ASC 815. Therefore, the fair value of each instrument must be recorded as a liability on the Company s balance sheet. Changes in the fair values of these instruments are reflected as adjustments to the amount of the recorded liabilities and the corresponding gain or loss is recorded in the Company s statement of operations within Gain (loss) on derivatives . At the date of the conversion of each warrant or portion thereof, or exercise of the warrants or portion thereof, as the case may be, the corresponding liability is reclassified as equity. The warrants expired in April 2011 and the Company recorded a realized gain of $83 thousand as a result of the expiration.

On July 20, 2010, the Company entered into an interest rate swap with a July 30, 2010 effective date. The interest rate swap agreement, which expires in June 2014, had a notional value of $16.3 million on September 30, 2011, which represented approximately 65% of the outstanding underlying debt, and a fixed rate of 1.40%. The fair value of the interest rate swap outstanding at September 30, 2011 was a liability of $302 thousand. The Company has designated the swap as a cash flow hedge. In accordance with ASC 815, the fair value of the swap is shown on the Company s consolidated balance sheet within derivative liabilities, unrealized changes in the value are included in other comprehensive income within the stockholders equity section on the Company s consolidated balance sheet and any realized changes are included in the Company s consolidated statement of operations within interest expense.

The following table presents the fair values of the Company s derivative instruments (in thousands):

Description	Balance Sheet Location	September 30, 2011	December 31, 2010
Derivative Designated as a Cash Flow Hedge:			
Interest rate swap	Derivative liabilities	$ 302	$ 100
Derivatives Not Designated as Hedging Instruments:			
Warrants	Derivative liabilities		83
Total		$ 302	$ 183

The following table presents the pretax impact that changes in the fair values of derivatives designated as hedging instruments had on AOCI and earnings during the three months ended September 30, 2011 (in thousands):

Description	Loss Recognized in OCI	Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Location of Gain (Loss) Recognized in Income (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Recognized in Income (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Interest rate swap	$ 107	Gain (loss) on derivatives	$	Gain (loss) on derivatives	$
Total	$ 107		$		$

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The following table presents the pretax impact that changes in the fair values of derivatives designated as hedging instruments had on AOCI and earnings during the nine months ended September 30, 2011 (in thousands):

Description	Loss Recognized in OCI	Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Location of Gain (Loss) Recognized in Income (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Recognized in Income (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Interest rate swap	$ 203	Gain (loss) on derivatives	$	Gain (loss) on derivatives	$
Total	$ 203		$		$

The following table presents the pretax gains (losses) that changes in the fair values of derivatives not designated as hedging instruments had on earnings during the three and nine months ended September 30, 2011 and 2010 (in thousands):

Description	Location of Gain (Loss) Recognized in Income	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Warrants	Gain (loss) on derivatives	$	$ 250	$ 83	$ (491)
Interest rate swap	Gain (loss) on derivatives				281
Total		$	$ 250	$ 83	$ (210)

The following tables present the methods used to establish fair value measurements for each of the derivatives (in thousands):

Description	September 30, 2011	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Warrant liability	$	$	$	$
Interest rate swap liability	302		302	
Total	$ 302	$	$ 302	$

Description	December 31, 2010	Fair Value Measurements at Reporting Date Using: Quoted Prices in	Significant Other Observable	Significant Unobservable Inputs

		Active Markets for Identical Liabilities (Level 1)	Inputs (Level 2)	(Level 3)
Warrant liability	$ 83	$ 83	$	$
Interest rate swap liability	100		100	
Total	$ 183	$ 83	$ 100	$

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7. Debt and Other Long-term Obligations

On June 15, 2010, the Company entered into a credit facility with Bank of America, N.A. as Administrative Agent, and KeyBank National Association as Documentation Agent. The facility consists of a $30.0 million term loan and a $5.0 million revolving credit facility, both of which mature in June 2014. Interest on the term loan is payable at the Company s choice of LIBOR plus 4.5%, or the Bank of America prime rate plus 3.5%. As of September 30, 2011, interest was payable at LIBOR plus 4.5%, which equaled approximately 4.72%.

Proceeds from the term loan were used to repay the outstanding balance of the Company s debt held by Kimberly-Clark (I-Flow), as well as contribute to the acquisition consideration for First Biomedical.

In January 2011, the Company entered into the first amendment of the credit agreement, which defined the periods in which the fixed charge coverage ratio covenant should be calculated. In April 2011, the Company entered into the second amendment of the credit agreement, which modified the terms of capital expenditure limitation and capital lease indebtedness limitation covenants. In May 2011, the Company entered the third amendment of the credit agreement, which modified the definition of EBITDA.

As of September 30, 2011, the Company had a letter of credit in the amount of $81 thousand outstanding, leaving $4.9 million available on its revolving credit facility.

The term loan is collateralized by substantially all of the Company s assets and requires the Company to comply with covenants, including but not limited to, financial covenants relating to satisfaction of a total leverage ratio, a fixed charge coverage ratio and an annual limit on capital expenditures and capital leases. In conjunction with the new credit facility, the Company incurred deferred debt issuance costs of $808 thousand. These costs are recognized in income using the effective interest method through the maturity date of June 15, 2014. Amortization of these costs for the three and nine months ended September 30, 2011 was $59 thousand and $181 thousand, respectively, which was recorded in interest expense.

In conjunction with the acquisition of First Biomedical, the Company entered into a subordinated promissory note with the former majority shareholder of First Biomedical (the Seller) in the amount of $750 thousand. In accordance with the note, the Company will pay the Seller in equal installments over 24 months, which includes annual interest of 5%. As of September 30, 2011 and December 31, 2010, the outstanding principal due on the note was $290 thousand and $569 thousand, respectively.

The Company sometimes enters into capital leases to finance the purchase of ambulatory infusion pumps. The pumps are capitalized into property and equipment 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.

Maturities on the loans and capital leases are as follows (in thousands):

	10/1/11 - 12/31/11	2012	2013	2014	Thereafter	Total
Term Loan	$ 1,125	$ 4,500	$ 4,875	$ 14,625	$	$ 25,125
Seller Note	95	194				289
Capital Lease	399	1,687	1,657	846	245	4,834
Other loans	50	204	212	84	1	551
Total	$ 1,669	$ 6,585	$ 6,744	$ 15,555	$ 246	$ 30,799

8. Income Taxes

Provision for income taxes was a benefit of $6.5 million and $22.7 million for the three and nine months ended September 30, 2011, respectively, compared to an expense of $295 thousand and a benefit of $112 thousand for the three and nine months ended September 30, 2010, respectively. In computing its income tax provision, the Company estimates its effective income tax rate for the full year and applies that rate to income earned through the reporting period.

During the period ended September 30, 2011, the Company recorded a $6.5 million long term deferred tax asset as a result of the tax impact of asset impairment charges related to tax deductible goodwill and intangibles. This resulted in a net long term deferred tax asset of $18.1 million

on the Company s balance sheet as of September 30, 2011, as compared to a net long term deferred tax liability of $4.6 million as of December 31, 2010.

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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. Certain deferred tax liabilities can also be considered as a source of future taxable income including those resulting from the acquisition. In prior years and through September 30, 2010, the Company had deferred tax assets to which a full valuation allowance was applied. Based upon the weight of available evidence, it was more likely than not that some portion or all of the deferred tax assets would not be realized. As a result of a review of the Company s earnings history, existing deferred tax liabilities including those resulting from the First Biomedical acquisition, the Company removed the valuation allowance previously applied against the net deferred tax asset during the year ended December 31, 2010.

9. Related Party Transactions

The Company recorded $175 thousand and $539 thousand in stock based compensation expense during the three and nine months ended September 30, 2011, respectively, related to shares granted to the board of directors and officers. The Company recorded $694 thousand and $1.4 million in stock based compensation expense during the three and nine months ended September 30, 2010, respectively, related to shares granted to the board of directors and officers.

As described in Note 3 to these consolidated financial statements, in accordance with the terms of the Stock Purchase Agreement with First Biomedical, the Company entered into a subordinated promissory note with the former majority shareholder of First Biomedical (the Seller) in the amount of $750 thousand. In accordance with the note, the Company will pay the Seller in equal installments over 24 months, which includes annual interest of 5%. As of September 30, 2011 the outstanding principal due on the note was $290 thousand. The Seller is a current employee of the Company and is subject to an employment agreement. Also, the Seller owns Jan-Mar LLC and is the principal owner of the CW Investment Group LLC. In accordance with the Stock Purchase Agreement, the Company entered into operating lease agreements with Jan-Mar LLC and the CW Investment Group LLC, each of which owns one of the two office buildings utilized by First Biomedical in Olathe, Kansas. The terms of each lease are thirty six months, which commenced on July 1, 2010. Rent will be paid monthly in the amount of $5 thousand to Jan-Mar LLC and $3 thousand to the CW Investment Group LLC.

10. Commitments and Contingencies

The Company is involved in legal proceedings arising out of the ordinary course and conduct of our business, the outcomes of which are not determinable at this time. We have insurance policies covering such potential losses where such coverage is cost effective. In the Company s opinion, any liability that might be incurred by us upon the resolution of these claims and lawsuits will not, in the aggregate, have a material adverse effect on the Company s consolidated financial position, results of operations or cash flows.

As of September 30, 2011, the Company had approximate minimum future operating lease commitments of (in thousands):

2011	2012	2013	2014	2015
$131	$430	$283	$195	$200

11. Share-based Compensation

2007 Stock Incentive Plan

In 2007, the Company adopted the 2007 Stock Incentive Plan providing for the issuance of a maximum of 2,000,000 shares of common stock in connection with the grant of stock-based or stock-denominated awards. On June 10, 2011, the Company registered an additional 3,000,000 under the 2007 Stock Incentive Plan.

Restricted Shares

Restricted shares entitle the holder to receive, upon meeting certain vesting criteria, a specified number of shares of the Company s common stock. Stock-based compensation cost of restricted shares is measured by the market value of the Company s common stock on the date of grant. Compensation cost associated with certain restricted share grants also takes into account market conditions in its measurement. The following table summarizes restricted share activity for the nine months ended September 30, 2011:

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	Number of shares (In thousands)	Weighted average grant date fair value
Unvested at January 1, 2011	2,174	$ 2.51
Granted	577	$ 1.65
Vested	(116)	$ 1.99
Vested shares forgone to satisfy minimum statutory withholding	(66)	$ 2.00
Unvested at September 30, 2011	2,569	$ 2.35

As of September 30, 2011, there was $7.6 million of pre-tax total unrecognized compensation cost related to non-vested restricted shares, which will be adjusted for future forfeitures. The Company expects to recognize such cost over a period of approximately 14 years.

Stock-based compensation expense

Total stock-based compensation expense, which is included in selling, general and administrative expenses, was $419 thousand and $814 thousand for the three months ended September 30, 2011 and 2010, respectively, and was $921 thousand and $1.8 million for the nine months ended September 30, 2011 and 2010, respectively.

12. Employee Benefit Plans

The Company has defined contribution plans in which the Company contributes a certain percentage of employee contributions. Such Company matching contributions totaled $161 thousand and $78 thousand for the nine months ended September 30, 2011 and 2010, respectively. The Company does not provide other post-retirement or post-employment benefits to its employees.

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

Overview

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

We supply electronic ambulatory infusion pumps and associated disposable supply kits to oncology practices, infusion clinics and hospital outpatient chemotherapy clinics. These pumps and supplies are utilized primarily by colorectal cancer patients who receive a standard of care treatment that utilizes continuous chemotherapy infusions delivered via electronic ambulatory infusion pumps. We obtain an assignment of insurance benefits from the patient, bill the insurance company or patient accordingly, and collect payment. We provide pump management services for the pumps and associated disposable supply kits to over 1,300 oncology practices in the United States and retain title to the pumps during this process.

We sell or rent new and pre-owned pole mounted and ambulatory infusion pumps to, and provide biomedical recertification, maintenance and repair services for, oncology practices as well as other alternate site settings including home care and home infusion providers, skilled nursing facilities, pain centers and others.

On June 15, 2010, we entered into a stock purchase agreement with the shareholders of First Biomedical, Inc. to acquire all of the issued and outstanding stock of First Biomedical and completed the acquisition for total consideration of $17.4 million. First Biomedical s results of operations are included in our consolidated statements of operations from the acquisition date.

First Biomedical sells, rents, services and repairs new and pre-owned infusion pumps and other medical equipment. First Biomedical also sells a variety of primary and secondary tubing, cassettes, catheters and other disposable items that are utilized with infusion pumps. Headquartered in Olathe, KS, with additional facilities in California and Toronto, First Biomedical is a leading provider to alternate site healthcare facilities and hospitals in the United States and Canada.

InfuSystem Holdings, Inc. Results of Operations for the three and nine months ended September 30, 2011 compared to the three and nine months ended September 30, 2010

Revenues

Our revenue for the quarter ended September 30, 2011 was $14.5 million, a 14% improvement compared to $12.7 million for the quarter ended September 30, 2010. Our revenue for the nine months ended September 30, 2011 was $40.6 million, a 19% improvement compared to $34.2 million for the nine months ended September 30, 2010. The increase in revenues for both periods is related to obtaining business at new customer facilities and expansion into new product lines associated with our acquisitions. The increase was partially offset by slight decrease in our consignment revenues due to the continued shortage of chemotherapy drugs, which are used in our ambulatory infusion pumps.

Gross Profit

Gross profit for the quarter ended September 30, 2011 was $9.2 million, an increase of 4% compared to $8.9 million for the quarter ended September 30, 2010. Gross profit for the nine months ended September 30, 2011 was $27.3 million, an increase of 11% compared to $24.5 million for the nine months ended September 30, 2010. It represented 64% and 67% of revenues for the three and nine months ended September 30, 2011, respectively, compared to 70% and 72% for the three and nine months ended September 30, 2010, respectively. The decrease, as a percentage of revenues, is primarily related to a higher mix of pump sales, services, and rentals as compared to third party billings.

Provision for Doubtful Accounts

Provision for doubtful accounts for the quarter ended September 30, 2011 was $884 thousand, a decrease of 10% compared to $1.0 million for the quarter ended September 30, 2010. Provision for doubtful accounts for the nine months ended September 30, 2011 was $3.0 million, a decrease of 12% compared to $3.5 million for the nine months ended September 30, 2010. The decrease for both periods is related to a decrease in direct patient billings, as well as improved collectability relating to sales, service and rental customers.

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Amortization of Intangible Assets

Amortization of intangible assets for the quarter ended September 30, 2011 was $683 thousand, a 9% increase compared to $624 thousand for the quarter ended September 30, 2010. Amortization of intangible assets for the nine months ended September 30, 2011 was $2.0 million, a 23% increase compared to $1.6 million for the nine months ended September 30, 2010. The increase is primarily related to additional intangible assets associated with acquisitions as well as amortization of new software.

Asset Impairment Charges

As of June 30, 2011, based on a combination of factors, including a decline in our market capitalization, updated business forecasts, and the expiration of our warrants, we concluded that there were sufficient indicators to require us to perform an interim goodwill and indefinite lived intangibles impairment analysis. In accordance with the provisions of ASC 350, Intangibles Goodwill and Other , we apply a fair value based impairment test to the net book value of goodwill and indefinite-lived assets on an annual basis and, if certain events or circumstances indicate that an impairment loss may have been incurred, on an interim basis. The analysis of potential impairments of goodwill requires a two-step process. The first step is an estimation of fair value of the Company. If step one indicates that impairment potentially exists, the second step is performed to measure the amount of impairment, if any. Impairment exists when the fair value of goodwill or indefinite-lived assets is less than the carrying value. For the purposes of the analysis performed during the second quarter of 2011, our estimates of fair value were based on a combination of the income approach, which estimates the fair value based on the future discounted cash flows, and the market approach, which estimates the fair value based on comparable market prices. We concluded that an impairment loss was probable and could be reasonably estimated. Accordingly, we recorded a $44.2 million non-cash asset impairment charge.

As of September 30, 2011, based on a significant decline in our market capitalization, we concluded that there was an indicator to require us to perform an interim goodwill and indefinite lived intangibles impairment analysis and as a result, we concluded that an impairment loss was probable and could be reasonably estimated. For the purposes of the analysis performed during the third quarter of 2011, our estimates of fair value were based on a combination of the income approach, which estimates the fair value based on the future discounted cash flows and the market approach which estimates the fair value based on comparable market prices. Accordingly, for the three months ended September 30, 2011, we recorded $23.4 million for non-cash asset impairment charges representing our best estimate of the loss.

Selling and Marketing Expenses

During the quarter ended September 30, 2011, our selling and marketing expenses were $2.3 million, an increase of 35% compared to $1.7 million for the quarter ended September 30, 2010. During the nine months ended September 30, 2011, our selling and marketing expenses were $7.1 million, an increase of 50% compared to $4.7 million for the nine months ended September 30, 2010. The increase in expenses is primarily related to expenses incurred by our acquired businesses as well as increased investments in the sales and marketing departments, such as the launch of our iPad-based electronic paperwork system. Selling and marketing expenses during these periods consisted of sales salaries, commissions and associated fringe benefit and payroll-related items, marketing, share-based compensation, travel and entertainment and other miscellaneous expenses.

General and Administrative Expenses

During the quarter ended September 30, 2011, our general and administrative expenses were $4.5 million, a decrease compared to $4.8 million for the quarter ended September 30, 2010. The decrease for this period is primarily related to a decrease in share-based compensation. During the nine months ended September 30, 2011, our general and administrative expenses were $13.2 million, an increase compared to $12.7 million for the nine months ended September 30, 2010. This increase is primarily related to general and administrative expenses incurred at the acquired businesses, partially offset by a decrease in share-based compensation as well acquisition costs. General and administrative expenses during these periods consisted primarily of administrative personnel salaries, fringe benefits and payroll-related items, professional fees, share-based compensation, insurance and other miscellaneous expenses.

Other Income and Expenses

During the nine months ended September 30, 2011, we recorded a gain on derivatives of $83 thousand related to the expiration of the warrants for the period. During the three and nine months ended September 30, 2010, we recorded a derivative gain of $250 thousand and a loss of $210 thousand, respectively. For the quarter ended September 30, 2010, the gain included an unrealized gain from the change in the fair value of our warrants, partially offset by a realized gain on the termination of our single interest rate swap. Included in the nine months ended September 30, 2010 loss was a realized loss recorded in connection with the warrant exchange, an unrealized loss from the change in the fair value of our warrants and a realized gain on the termination of our single interest rate swap.

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During the quarter ended September 30, 2011, we recorded interest expense of $541 thousand, compared to $609 thousand for the quarter ended September 30, 2010. During the nine months ended September 30, 2011, we recorded interest expense of $1.6 million, compared to $2.8 million for the nine months ended September 30, 2010. The decrease for both periods is primarily the result of expensing all of the remaining I-Flow deferred debt issuance costs in the prior period and the paydown of the term loan principal, partially offset by an increase in capital leases. These amounts consist primarily of interest paid on our term loans, cash payments associated with our interest rate swap, amortization of deferred debt issuance costs and interest expense on capital leases.

During the three and nine months ended September 30, 2011, we recorded income tax benefit of $6.5 million and $22.7 million, respectively compared to an expense of $295 thousand and a benefit of $112 thousand, respectively, during the three and nine months ended September 30, 2010. The benefit increase is primarily due to the tax impact of asset impairment charge recorded during the quarter.

Inflation

Management believes that there has been no material effect on our operations or financial condition as a result of inflation or changing prices of our infusion pumps during the period from December 31, 2010 through September 30, 2011.

Liquidity and Capital Resources

As of September 30, 2011, we had cash resources of $0.4 million compared to $5.0 million at December 31, 2010. The decrease in cash available to us was primarily due to capital expenditures, principal and interest payments on our term loan and capital leases and inventory purchases.

Cash provided by operating activities for the nine months ended September 30, 2011 was $3.7 million compared to $7.8 million for the nine months ended September 30, 2010. The decrease is primarily attributable to decrease in accounts payable and other current liabilities.

Cash used in investing activities for the nine months ended September 30, 2011 was $4.2 million compared to $17.8 million for the nine months ended September 30, 2010. The decrease is related to the First Biomedical acquisition in the prior period, partially offset by an increase in cash paid for capital expenditures and acquisition of intangible assets.

Cash used in financing activities for the nine months ended September 30, 2011 was $4.0 million compared to cash provided by financing activities of $7.0 million for the nine months ended September 30, 2010. The change in cash used in financing activities and cash provided by financing activities is due to the cash proceeds from the Bank of America loans in the prior period and current period, which was partially offset by the principal payoff of the I-Flow term loan in the prior period, principal payments on the term loan, capital lease payments and repurchase of treasury shares in the current year.

The Bank of America term loan is collateralized by substantially all of our assets and requires us to comply with covenants principally relating to satisfaction of a total leverage ratio, a fixed charge coverage ratio, and an annual limit on capital expenditures. As of September 30, 2011, we were in compliance with all such covenants.

Contractual Obligations

As of September 30, 2011, future payments related to contractual obligations are as follows (in thousands):

	Payment Due by Period (*)				
	Less than 1 Year	1 to 3 Years	3 to 5 Years	More than 5 Years	Total
Debt Obligations	$ 4,790	$ 20,625	$	$	$ 25,415
Capital Lease Obligations	1,650	2,776	408		4,834
Operating Lease Obligations	475	516	249		1,240
Other Obligations	202	338	11		551
Total	$ 7,117	$ 24,255	$ 668	$	$ 32,040

(*) The table above does not include any interest payments associated with our variable rate term debt. For more information, please refer to the discussion under Debt and other Long-term Obligations included in Note 7 to our Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

Included in the operating lease obligations are future minimum lease payments as of September 30, 2011 under various lease agreements we have entered into for office space.

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Contingent Liabilities

We do not have any contingent liabilities.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates, assumptions and judgments that affect the amounts reported in the financial statements, including the notes thereto. We consider critical accounting policies to be those that require more significant judgments and estimates in the preparation of our consolidated financial statements. These include the following: revenue recognition, which includes contractual allowances, accounts receivable and allowance for doubtful accounts, warrants and derivative financial instruments, income taxes and goodwill valuation. Management relies on historical experience and other assumptions believed to be reasonable in making its judgment and estimates. Actual results could differ materially from those estimates.

Management believes its application of accounting policies, and the estimates inherently required therein, are reasonable. These accounting policies and estimates are periodically reevaluated, and adjustments are made when facts and circumstances dictate a change.

Our accounting policies are more fully described under the heading Summary of Significant Accounting Policies in Note 2 to our Consolidated Financial Statements included in this Quarterly Report on Form 10-Q. We believe the following critical accounting estimates are the most significant to the presentation of our financial statements and require the most difficult, subjective and complex judgments:

Revenue Recognition

The majority of our revenue is rental revenue in the oncology market. Revenues are recognized predominantly under fee for service arrangements through equipment that we rent to patients. We recognize revenue only when all of the following criteria are met: 1) persuasive evidence of an arrangement exists, 2) services have been rendered, 3) the price to the customer is fixed or determinable and 4) collectability is reasonably assured. Persuasive evidence of an arrangement is determined to exist, and collectability is reasonably assured, when 1) we receive a physician s written order and assignment of benefits, signed by the physician and patient, respectively, and 2) we have verified actual pump usage and 3) we receive patient acknowledgement of assignment of benefits. We recognize rental revenue from electronic infusion pumps as earned, normally on a month-to-month basis. Pump rentals are billed at our established rates, which often differ from contractually allowable rates provided by third-party payors such as Medicare, Medicaid and commercial insurance carriers. All billings to third party payors are recorded net of provision for contractual adjustments to arrive at net revenues.

Due to the nature of the industry and the reimbursement environment in which we operate, certain estimates are required to record net revenues and accounts receivable at their net realizable values. Inherent in these estimates is the risk that they will have to be revised or updated as additional information becomes available. Specifically, the complexity of many third-party billing arrangements and the uncertainty of reimbursement amounts for certain services from certain payors may result in adjustments to amounts originally recorded. Due to continuing changes in the health care industry and third-party reimbursement, it is possible that management s estimates could change in the near term, which could have an impact on our results of operations and cash flows.

Our largest payor is Medicare, which accounted for approximately 32% and 31% of our gross billings for the nine months ended September 30, 2011 and 2010, respectively. We have contracts with various individual Blue Cross/Blue Shield affiliates which in the aggregate accounted for approximately 21% and 23% of our gross billings for the nine months ended September 30, 2011 and 2010, respectively. No individual payor, other than Medicare and the Blue Cross/Blue Shield entities accounts for greater than 6% of our gross billings.

We recognize revenue for selling, renting and servicing new and pre-owned infusion pumps and other medical equipment to oncology practices as well as other alternate site settings including home care and home infusion providers, skilled nursing facilities, pain centers and others when 1) persuasive evidence of an arrangement exists, 2) services have been rendered, 3) the price to the customer is fixed or determinable and 4) collectability is reasonably assured. We perform an analysis to estimate sales returns and record an allowance. This estimate is based on historical sales returns.

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Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are reported at the estimated net realizable amounts from patients, third-party payors and other direct pay customers for goods provided and services rendered. We perform periodic analyses to assess the accounts receivable balances and record an allowance for doubtful accounts based on the estimated collectability of the accounts such that the recorded amounts reflect estimated net realizable value. Upon determination that an account is uncollectible, the account is written-off and charged to the allowance.

Accounts receivable are reduced by an allowance for amounts that could become uncollectible in the future. Our estimate for allowance for doubtful accounts is based upon management s assessment of historical and expected net collections by payor. Due to continuing changes in the health care industry and third-party reimbursement it is possible that management s estimates could change in the near term, which could have an impact on its financial position, results of operations, and cash flows.

Warrants and Derivative Financial Instruments

On April 18, 2006, the Company consummated its initial public offering (IPO) of 16,666,667 units. Each unit consists of one share of common stock and two redeemable common stock purchase warrants. Each warrant entitles the holder to purchase from the Company one share of its common stock at an exercise price of $5.00.

The Warrant Agreement provides for the Company to register the shares underlying the warrants in the absence of the Company s ability to deliver registered shares to the warrant holders upon warrant exercise.

ASC 815 requires freestanding derivative contracts that are settled in a company s own stock, including common stock warrants, to be designated as equity instruments, assets or liabilities. Under the provisions of this standard, a contract designated as an asset or a liability must be carried at its fair value on a company s balance sheet, with any changes in fair value recorded in the company s results of operations. A contract designated as an equity instrument must be included within equity and no fair value adjustments are required from period to period.

The 8,329,638 remaining warrants issued in connection with the IPO and overallotment to purchase common stock expired on April 11, 2011 and we recorded a realized gain of $83 thousand, which is included on the gain in derivatives line item on the income statement, during the nine months ended September 30, 2011.

ASC 815 requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value.

Cash Flow Hedge

We are exposed to risks associated with future cash flows related to the variability of the interest rate on our term loan with Bank of America. In order to manage the exposure of these risks, we enter into interest rate swaps. On July 20, 2010, we entered into an interest rate swap and designated the swap as a cash flow hedge. In accordance with ASC 815, the fair value of the swap is shown on our consolidated balance sheet within derivative liabilities, unrealized changes in the fair value are included in accumulated other comprehensive loss within the stockholders equity section on our consolidated balance sheet, and any realized changes would be included in our consolidated statement of operations within interest expense.

Income Taxes

We account for income taxes in accordance with ASC 740, *Income Taxes,* which requires that we recognize deferred tax liabilities and assets based on the differences between the financial statement carrying amounts and the tax basis of assets and liabilities, using enacted tax rates in effect in the years the differences are expected to reverse. Deferred income tax (expense) benefit results from the change in net deferred tax assets or deferred tax liabilities. A valuation allowance is recorded when, in the opinion of management, it is more likely than not that some or all of any deferred tax assets will not be realized. For more information, refer to the Income Taxes discussion included in Note 8.

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Goodwill and Other Intangibles Valuation

Goodwill arising from business combinations represents the excess of the purchase price over the estimated fair value of the net assets of the businesses acquired.

In accordance with the provisions of ASC 350, *Intangibles Goodwill and Other,* goodwill and other intangibles are tested annually for impairment or more frequently if circumstances indicate the possibility of impairment. Significant judgments required to estimate fair value include estimating future cash flows, and determining appropriate discount rates, growth rates and other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value which could trigger impairment.

We performed the annual impairment test at October 31, 2010, and determined there was no impairment of goodwill. The fair value of our single reporting unit was estimated using a valuation model that combined an income and market approach, utilizing the discounted cash flow and guideline public company methods, respectively, which indicated that the fair value of its net assets exceeded the carrying value by less than 10%.

In accordance with the provisions of ASC 350, Intangibles Goodwill and Other , we apply a fair value based impairment test to the net book value of goodwill and indefinite-lived assets on an annual basis and, if certain events or circumstances indicate that an impairment loss may have been incurred, on an interim basis. The analysis of potential impairments of goodwill requires a two-step process. The first step is an estimation of fair value of the Company. If step one indicates that impairment potentially exists, the second step is performed to measure the amount of impairment, if any. Impairment exists when the fair value of goodwill or indefinite-lived assets is less than the carrying value.

As of June 30, 2011, based on a combination of factors, including a decline in our market capitalization, updated business forecasts, and the expiration of our warrants, we concluded that there were sufficient indicators to require us to perform an interim goodwill and indefinite lived intangibles impairment analysis. For the purposes of the analysis performed during the second quarter of 2011, our estimates of fair value were based on a combination of the income approach, which estimates the fair value based on the future discounted cash flows, and the market approach, which estimates the fair value based on comparable market prices. We concluded that an impairment loss was probable and could be reasonably estimated. Accordingly, we recorded a $44.2 million non- cash asset impairment charge.

As of September 30, 2011, based on a significant decline in our market capitalization, we concluded that there was an indicator to require us to perform an interim goodwill and indefinite lived intangibles impairment analysis and as a result, we concluded that an impairment loss was probable and could be reasonably estimated. For the purposes of the analysis performed during the third quarter of 2011, our estimates of fair value were based on a combination of the income approach, which estimates the fair value based on the future discounted cash flows, and the market approach, which estimates the fair value based on comparable market prices. We concluded that an impairment loss was probable and could be reasonably estimated. Accordingly, for the three months ended September 30, 2011, we recorded $23.4 million for non-cash asset impairment charges representing our best estimate of the loss.

For more information, refer to the Goodwill and Intangible Assets discussion included in Note 5 to these consolidated financial statements.

Recent Accounting Pronouncements

In May 2011, the FASB issued Accounting Standard Update (ASU) 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS. The amendments in this update generally represent clarifications of ASC 820, but also include some instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. This update results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP and IFRS. The amendments in this update are to be applied prospectively. The amendments are effective for the Company during interim and annual periods beginning after December 15, 2011. We are currently evaluating this pronouncement, but do not anticipate adoption to have a material impact to our consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income (ASU 2011-05). ASU 2011-05 eliminates the option to report other comprehensive income and its components in the statement of stockholders equity and requires the presentation of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. This update is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 and should be applied retrospectively. The adoption of ASU 2011-05 is not expected to have a material effect on our consolidated financial statements, but may require a change in the presentation of the our comprehensive income from the notes of the consolidated financial statements, where it is currently disclosed, to the face of the consolidated financial statements.

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On September 15, 2011, the FASB issued ASU 2011- 08, Intangibles Goodwill and Other (Topic 350) Testing Goodwill for Impairment. The Board s objective was to simplify goodwill impairment testing by permitting assessment of qualitative factors to determine whether events and circumstances lead to the conclusion that it is necessary to perform the two-step goodwill impairment test currently required under Topic 350, Intangibles Goodwill and Other. Currently, Topic 350 requires entities to test goodwill on an annual basis by comparing the fair value of a reporting unit to its carrying value including goodwill (Step one). The second part of the test must be performed to measure the amount of impairment. Under the amendment, entities are not required to calculate the fair value of a reporting unit unless they conclude that it is more likely than not that the unit s carrying value is greater than its fair value based on an assessment of events and circumstances. The more likely than not threshold is when there is a likelihood of more than 50% that a reporting unit s carrying value is greater than its fair value. We are currently evaluating this pronouncement, but do not anticipate adoption to have a material impact to our consolidated financial statements.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

At September 30, 2011, the principal plus accrued interest on our term loan with Bank of America was $25.1 million. The term loan bears interest at LIBOR plus 4.5% or the Bank of America prime rate plus 3.5%, at our option. The loan is a variable rate loan and therefore fair value approximates book value. See Note 7 to our Consolidated Financial Statements included in this Quarterly Report on Form 10-Q for further discussion of our term loan with Bank of America.

We are exposed to interest rate fluctuations on our underlying variable rate long-term debt. We utilize an interest rate swap agreement to moderate approximately 65% of such exposure. We do not use derivative financial instruments for trading or other speculative purposes.

Based on the term loan and interest rate swap outstanding, a decrease in LIBOR to zero (which is less than a 100 basis point decrease) would have increased our cash flow and pretax earnings by approximately $5 thousand and $16 thousand for the quarter ended September 30, 2011 and nine months ended September 30, 2011, respectively. A 100 basis point increase in LIBOR would have decreased our cash flow and pretax earnings for the quarter ended September 30, 2011 and nine months ended September 30, 2011 by approximately $23 thousand and $72 thousand, respectively.

We historically classified certain warrants as derivative liabilities because there was a possibility that we may be required to settle the warrants in registered shares of common stock. These warrants expired in April 2011 and there was no related amount on the balance sheet as of September 30, 2011 as a result of the expiration.

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Item 4. Controls and Procedures
Disclosure Controls and Procedures

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

As of the end of the period covered by this Quarterly Report on Form 10-Q, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2011. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that such disclosure controls and procedures as of September 30, 2011, were not effective due to a material weakness in our internal controls over financial reporting identified during the second quarter of fiscal 2011, as described below. Notwithstanding this material weakness, based on additional procedures performed after its discovery, management believes that the financial statements included in this report fairly present in all material respects our financial condition, results of operations, and cash flows for the periods presented.

During the second quarter of 2011, we identified a material weakness in the Company s internal control over financial reporting relating to limited finance staffing levels that are not commensurate with the Company s increased complexity and its financial accounting and reporting requirements in light of the Company s continued growth. The Company has grown due to the acquisition of First Biomedical in 2010 and the formation of a leasing company in early 2011. The growth of the Company has led the financial reporting staff to rely increasingly on outsourced work and outside specialists, without adequate resources to thoroughly review, understand and, where necessary, challenge the assumptions, utilized by such outside specialists. To address this material weakness, the Company is reassessing its finance staffing needs and has begun to take steps to assure that adequate staffing and resources are available for the financial reporting process.

Change in Internal Control

Other than the changes described above, we have made no changes during the quarter ended September 30, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

Item 6. Exhibits

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

* In accordance with Rule 406T of Regulation S-T, the information in these exhibits shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, except as expressly set forth by specific reference in such filing.

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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 14, 2011

By: /s/ JAMES M. FROISLAND
James M. Froisland
Chief Financial Officer
(Principal Financial Officer)

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