InfuSystem Holdings, Inc
Form 10-Q
May 05, 2010
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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 March 31, 2010**

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: 000-51902

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 ¨ 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 May 4, 2010, 19,764,635 shares of the registrant s common stock, par value $0.0001 per share, were outstanding.

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INFUSYSTEM HOLDINGS, INC. AND SUBSIDIARY

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Item 1. Financial Statements

INFUSYSTEM HOLDINGS, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)	March 31, 2010 (Unaudited)	December 31, 2009
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 7,718	$ 7,750
Accounts receivable, less allowance for doubtful accounts of $2,156 and $1,842 at March 31, 2010 and December 31, 2009, respectively	6,516	5,517
Inventory	651	925
Prepaid expenses and other current assets	609	395
Deferred income taxes	125	125
Total Current Assets	15,619	14,712
Property & equipment, net	12,720	13,499
Deferred debt issuance costs, net	673	781
Goodwill	56,580	56,580
Intangible assets, net	29,068	28,911
Other assets	214	207
Total Assets	$ 114,874	$ 114,690
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	$ 1,337	$ 1,306
Other current liabilities	1,713	1,573
Derivative liabilities	1,043	2,670
Current portion of long-term debt; March 31, 2010 and December 31, 2009 include $5,337 and $4,928 payable to Kimberly-Clark (I-Flow), respectively	6,047	5,501
Total Current Liabilities	10,140	11,050
Long-term debt, net of current portion; March 31, 2010 and December 31, 2009 include $15,531 and $16,757 payable to Kimberly-Clark (I-Flow), respectively	17,713	18,640
Deferred income taxes	3,314	3,314
Other liabilities	138	221
Total Liabilities	$ 31,305	$ 33,225
Stockholders Equity		
Preferred stock, $.0001 par value: authorized 1,000,000 shares; none issued		
Common stock, $.0001 par value; authorized 200,000,000 shares; issued and outstanding 19,764,635 and 18,734,144, respectively	2	2
Additional paid-in capital	83,526	81,410
Retained earnings	41	53
Total Stockholders Equity	83,569	81,465
Total Liabilities and Stockholders Equity	$ 114,874	$ 114,690

See accompanying notes to consolidated financial statements.

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INFUSYSTEM HOLDINGS, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	Three Months Ended March 31	
(in thousands, except per share data)	**2010**	**2009**
Net revenues	$ 10,934	$ 9,227
Operating expenses:		
Cost of Revenues Product and supply costs	1,675	1,270
Cost of Revenues Pump depreciation and disposals	1,139	840
Provision for doubtful accounts	1,393	969
Amortization of intangibles	487	457
Selling and marketing	1,442	1,320
General and administrative	3,306	3,110
Total Operating Expenses	9,442	7,966
Operating income	1,492	1,261
Other loss:		
Loss on derivatives	(389)	(2,642)
Interest expense	(805)	(986)
Total other loss	(1,194)	(3,628)
Income (loss) before income taxes	298	(2,367)
Income tax expense	(310)	(140)
Net loss	(12)	(2,507)
Net loss per share:		
Basic & Diluted	0.00	(0.14)
Weighted average shares outstanding:		
Basic & Diluted	18,903,611	18,531,838

See accompanying notes to consolidated financial statements.

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INFUSYSTEM HOLDINGS, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(in thousands)	Three Months Ended March 31 2010	2009
OPERATING ACTIVITIES		
Net Loss	$ (12)	$ (2,507)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Loss on derivatives	389	2,642
Provision for doubtful accounts	1,393	969
Depreciation and loss on disposal of pumps	1,206	981
Amortization of intangible assets	487	457
Amortization of deferred debt issuance costs	107	143
Stock-based compensation	100	278
Changes in assets and liabilities:		
Increase in current accounts receivable, net of provision	(2,392)	(1,437)
Decrease (increase) in other current assets	60	(391)
Increase in other assets	(7)	
Increase in accounts payable and other liabilities	132	134
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,463	1,269
INVESTING ACTIVITIES		
Capital expenditures	(537)	(586)
Proceeds from sale of property		1
NET CASH USED IN INVESTING ACTIVITIES	(537)	(585)
FINANCING ACTIVITIES		
Principal payments on term loan	(818)	(818)
Principal payments on capital lease obligations	(140)	(21)
NET CASH USED IN FINANCING ACTIVITIES	(958)	(839)
Net change in cash and cash equivalents	(32)	(155)
Cash and cash equivalents, beginning of period	7,750	11,513
Cash and cash equivalents, end of period	7,718	11,358
SUPPLEMENTAL DISCLOSURES		
Cash paid for interest (including swap payments)	$ 686	$ 826
Cash paid for income taxes	$ 7	$ 10
NON-CASH TRANSACTIONS		
Additions to property (a)	$ 84	$ 366
Property acquired pursuant to a capital lease	$ 576	$
Gross issuance of vested restricted shares (number of shares)	25	25

(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 March 31, but will be included as a cash outflow from investing activities for capital expenditures when paid.

See accompanying notes to consolidated financial statements.

INFUSYSTEM HOLDINGS, INC. AND SUBSIDIARY

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. (formerly HAPC, INC.) and its consolidated subsidiary, InfuSystem, Inc. (InfuSystem, together with InfuSystem Holdings, Inc., the Company) as of March 31, 2010 and December 31, 2009, the results of operations for the three months ended March 31, 2010 and 2009, and cash flows for the three months ended March 31, 2010 and 2009.

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). All intercompany accounts and transactions have been eliminated. Results of operations for the three months ended March 31, 2010 are not necessarily indicative of the results for an entire year.

The Company is a provider of ambulatory infusion pump management services for oncologists in the United States. Ambulatory infusion pumps are small, lightweight electronic pumps designed to be worn by patients and which allow patients the freedom to move about while receiving chemotherapy treatments. The pumps are battery powered and attached to intravenous administration tubing, which is in turn attached to a reservoir or plastic cassette that contains the chemotherapy drug.

The Company s business model is currently focused on oncology chemotherapy infusion primarily for colorectal cancer. To the Company s knowledge, it is the largest ambulatory infusion pump service provider focused on oncology.

The Company supplies electronic ambulatory infusion pumps and associated disposable supply kits to physicians offices, infusion clinics and hospital outpatient chemotherapy clinics to be utilized by patients who receive continuous chemotherapy infusions. 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 pole-mounted or ambulatory infusion pumps for use within the oncology practice and sells safety devices for cytotoxic drug transfer and administration.

The Company purchases electronic ambulatory infusion pumps from a variety of suppliers on a non-exclusive basis. Such pumps are generic in nature and are available to the Company s competitors. The pumps are currently used primarily for continuous infusion of chemotherapy drugs for patients with colorectal cancer.

The Company has one operating segment, which consists solely of InfuSystem, representing the only reportable segment in accordance with Accounting Standard Codification (ASC) 280 (formerly Statement of Financial Accounting Standards (SFAS) No. 131, *Disclosures about Segments of an Enterprise and Related Information).*

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.

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

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estimates in the preparation of its consolidated financial statements, including the following: revenue recognition, which includes contractual allowances; accounts receivable and allowance for doubtful accounts; 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.

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 a single financial institution and is fully insured with the Federal Deposit Insurance Corporation (FDIC) under the Transaction Account Guarantee Program (which has been extended until June 30, 2010).

Accounts Receivable and Allowance for Doubtful Accounts

The Company has agreements with third-party payors which provide for payments at amounts different from established rates. Accounts receivable are reported at the estimated net realizable amounts from patients, third-party payors and others for 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.

Substantially all of the Company s receivables are related to providing healthcare services to patients. 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 supplies and is stated at the lower of cost (determined on a first in, first out basis) or market. The Company records a period expense for inventory supplies obsolescence when incurred.

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 of ambulatory infusion pumps that the Company acquires from third-party manufacturers, is depreciated over five 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.

Long-Lived Assets

The Company accounts for the impairment and disposition of long-lived assets in accordance with ASC 360, (formerly SFAS No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets).* 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. The Company has determined that no impairment indicators existed as of March 31, 2010.

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 (formerly SFAS No. 142, *Goodwill and Other Intangible Assets),* 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, 2009, and determined there was no impairment of goodwill. No events have occurred subsequent to October 31, 2009 that indicates impairment may have occurred.

Intangible Assets

Intangible assets consist of trade names, physician relationships and software. The trade names and physician relationships arose from the acquisition of InfuSystem. Software is amortized on a straight-line basis over 3 years. The Company amortizes the value assigned to the physician relationships on a straight-line basis over the period of expected benefit, which is 15 years. The acquired physician 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. InfuSystem has long-standing relationships with numerous oncology clinics and physicians. 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. Management tests non-amortizable intangible assets (trade names) for impairment in accordance with ASC 350 (formerly SFAS No. 142). The Company performed the annual impairment test at October 31, 2009, and determined there was no impairment. No events have occurred subsequent to October 31, 2009 that indicates impairment may have occurred.

Revenue Recognition

The Company s strategic focus 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: persuasive evidence of an arrangement exists; services have been rendered; the price to the customer is fixed or determinable; and collectability is reasonably assured. Persuasive evidence of an arrangement is determined to exist, and collectability is reasonably assured, when the Company receives a physician s written order and assignment of benefits, signed by the physician and patient, respectively, and the Company has verified actual pump usage and 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 contracted payor is Medicare, which accounted for approximately 31% of its gross billings for the quarter ended March 31, 2010. The Company has contracts with various individual Blue Cross/Blue Shield affiliates which in the aggregate accounted for approximately 23% of its gross billings for the quarter ended

March 31, 2010. 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.

Income Taxes

The Company accounts for income taxes in accordance with ASC 740 (formerly SFAS No. 109, *Accounting for 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 benefit (expense) 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, please refer to the Income Taxes discussion included in Note 8.

Share Based Payment

ASC 718 (formerly SFAS No. 123(R), *Share-Based Payment)*, 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 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.

Share based compensation expense recognized for the three months ended March 31, 2010 was $100,000, compared to $278,000 for the three months ended March 31, 2009.

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. On May 18, 2006, the Company sold an additional 208,584 units (the Overallotment Units) to FTN Midwest Securities Corp., the underwriter of its IPO (FTN Midwest), pursuant to a partial exercise by FTN Midwest of its overallotment option. 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.

On February 16, 2010 the Company announced an Offer to Exchange common stock for outstanding warrants. At the time, the Company had 35,108,219 outstanding warrants. The exchange offer expired on March 17, 2010. Holders of the Company s warrants had the option to exchange their warrants for either One (1) share of Common Stock for every thirty-five (35) Warrants tendered, or One (1) share of Common Stock for every twenty-five (25) Warrants tendered, provided the recipient agreed to be subject to a lock-up provision precluding transfer of the shares of Common Stock received for six months following the expiration of the Exchange Offer. Based on the final count, 25,635,723 Warrants were properly tendered; 24,766,700 were tendered for shares of Common Stock subject to a lock-up, and 869,023 were tendered for unrestricted shares of Common Stock. Under the terms of the Exchange Offer, the Company issued an aggregate 1,015,489 shares of Common Stock in exchange for the tendered Warrants. After the exchange, there are 8,329,638 publicly held warrants and 1,142,858 privately held warrants outstanding.

In September 2000, the Emerging Issues Task Force issued ASC 815 (formerly EITF 00-19, *Accounting for Derivative Financial Instruments Indexed to and Potentially Settled in, a Company s Own Stock)*, which 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.

In accordance with ASC 815, the 8,329,638 remaining warrants issued in connection with the IPO and overallotment to purchase common stock must be settled in registered shares and are separately accounted for as liabilities as discussed in Note 6. The fair value of these warrants is shown on the Company s balance sheet and the unrealized changes in the value of these warrants are shown in the Company s statement of operations as Loss on derivatives. These warrants are freely traded on the Over the Counter Bulletin Board. Consequently, the fair value of these warrants is estimated as the market price of the warrant at each period end. To the extent the market price increases or decreases, the Company s warrant liabilities will also increase or decrease with a corresponding impact on the Company s results of operations within Loss on derivatives .

Sales of warrants that can be settled in unregistered shares of common stock, as discussed in Note 10, are treated as equity and included in additional paid in capital. The total warrants issued to date that can be settled in unregistered shares of common stock are 1,142,858 at an issue price of $.70 per warrant or a total issue price of $800,000.

ASC 815 (formerly SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities)*, 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.

In December 2007, the Company entered into a single interest rate swap to hedge the exposure associated with its floating rate debt. The Company has elected not to designate the swap as a cash flow hedge, in accordance with ASC 815. The fair value of the swap is therefore shown on the Company s balance sheet and the unrealized changes in the value of the swap are shown in the Company s statement of operations within Loss on derivatives .

Deferred Debt Issuance Costs

Capitalized debt issuance costs include those associated with the Company s term loan with Kimberly-Clark (formerly I-Flow). The Company classifies the costs as non-current assets and is amortizing the costs using the interest method through the maturity date of October 2011. For a further discussion of the Company s deferred debt issuance costs, please see Note 7.

Earnings Per Share

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

	Three Months Ended March 31,	
	2010	**2009**
Numerator:		
Net loss *(in thousands)*	$ (12)	$ (2,507)
Denominator:		
Weighted average common shares outstanding:		
Basic	18,903,611	18,531,838
Dilutive effect of nonvested awards		
Diluted	18,903,611	18,531,838
Net loss per share:		
Basic & Diluted	$ 0.00	$ (0.14)

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For the three months ended March 31, 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, 298,000 in non-vested restricted share grants granted under the 2007 Stock Incentive Plan, and 130,479 in vested stock options granted under the 2007 Stock Incentive Plan. For the three months ended March 31, 2009 the following warrants and stock awards were not included in the calculation because they would have an anti-dilutive effect: 33,750,502 outstanding warrants issued in connection with the IPO, 1,357,717 warrants issued privately, 496,000 in non-vested restricted share grants granted under the 2007 Stock Incentive Plan, and 330,000 non-vested stock options granted under the 2007 Stock Incentive Plan.

Recently Issued Accounting Pronouncements

In December 2007, the FASB issued ASC 805 (formerly SFAS No. 141(R), *Business Combinations)*. This statement retains the fundamental requirements of the original pronouncement requiring that the acquisition method of accounting, or purchase method, be used for all business combinations. This standard requires, among other things, expensing of acquisition related and restructuring related costs, measurement of pre-acquisition contingencies at fair value, measurement of equity securities issued for purchase at the date of close of the transaction and capitalization of in process research and development, all of which represent modifications to current accounting for business combinations. This standard is effective for fiscal years beginning after December 15, 2008. The Company adopted this standard effective January 1, 2009, and it did not have an impact on the Company s consolidated financial position, results of operations or cash flows.

3. Acquisitions

No acquisitions occurred during the three months ended March 31, 2010.

Additional Contingent Payment

The Stock Purchase Agreement related to the acquisition of InfuSystem also provides for a potential additional payment of up to $12,000,000, or the earn-out, to I-Flow in 2011, provided that certain consolidated net revenue growth targets related to the Company s future operations are met. Any amounts ultimately paid out in 2011 per the earn-out will increase Goodwill at the time of payment. No additional payment will be made unless the Company achieves consolidated net revenue CAGR of at least 40% over the three-year period. The consolidated net revenue CAGR for the two-year period ended December 31, 2009 as compared to InfuSystem s 2007 net revenues, was 11%.

4. Property and Equipment

Property and equipment consisted of the following as of March 31, 2010 and December 31, 2009 (amounts in thousands):

	March 31, 2010	December 31, 2009
Pump equipment	$ 20,942	$ 20,142
Furniture, fixtures and equipment	1,228	1,832
Accumulated depreciation	(9,450)	(8,475)
Total	12,720	$ 13,499

Included in pump equipment above is $3,255,000 and $2,678,000, as of March 31, 2010 and December 31, 2009, respectively, worth of pumps obtained under various capital leases. Included in accumulated depreciation above is $426,000 and $278,000, as of March 31, 2010 and December 31, 2009, 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.

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Depreciation expense and loss on pump disposals for the three months ended March 31, 2010 and 2009 was $1,206,000 and $981,000, respectively, which was recorded in cost of revenues and general and administrative expenses, for pump equipment and other fixed assets, respectively.

5. Goodwill and Intangible Assets

Goodwill

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. The goodwill amount for the October 25, 2007 acquisition of InfuSystem is $56,580,000, and is based upon the final valuation analysis.

Impairment Testing

As of October 31, 2009, the Company performed its annual impairment test pursuant to ASC 350 (formerly SFAS No. 142, *Goodwill and Other Intangible Assets)*. The fair value of the Company s single reporting unit was estimated using a combined income (discounted cash flow) and market approach (guideline public company) valuation model which indicated that the fair value of its net assets exceeded the carrying value. Based on the results of the valuation, the Company determined there was no impairment of goodwill. No events have occurred subsequent to October 31, 2009 that indicates impairment may have occurred.

The Company has continued to monitor operational performance measures, general economic conditions and its market capitalization. A downward trend in one or more of these factors could cause the Company to reduce the estimated fair value of its reporting unit and recognize a corresponding impairment of goodwill in connection with a future goodwill impairment test.

The Company tests non-amortizable intangible assets (trade names) for impairment in accordance with ASC 350. The Company performed the annual impairment test at October 31, 2009, and determined there was no impairment. No events have occurred subsequent to October 31, 2009 that indicates impairment may have occurred. The intangible assets resulting from the October 25, 2007 acquisition of InfuSystem are based upon the final valuation analysis.

Identifiable Intangible Assets

The carrying amount and accumulated amortization of intangible assets as of March 31, 2010 and December 31, 2009 were as follows (in thousands):

	March 31, 2010	December 31, 2009
Nonamortizable intangible assets		
Trade names	$ 5,500	$ 5,500
Amortizable intangible assets		
Physician relationships	27,400	27,400
Software	752	
Total nonamortizable and amortizable intangible assets	33,652	32,900
Less accumulated amortization	(4,584)	(3,989)
Total identifiable intangible assets	29,068	$ 28,911

Amortization expense for intangible assets for the three months ended March 31, 2010 and 2009 was $487,000 and $457,000, respectively, which was recorded in operating expenses. Expected annual amortization expense for intangible assets recorded as of March 31, 2010 is as follows (in thousands):

	2010	2011	2012	2013	2014
Amortization expense	$ 2,072	$ 2,072	$ 1,950	$ 1,827	$ 1,827

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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 issued to FTN Midwest on May 18, 2006, should be classified as liabilities in accordance with ASC 815 (formerly EITF 00-19). 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 will result in adjustments to the amount of the recorded liabilities, and the corresponding gain or loss will be recorded in the Company s statement of operations within (Loss) gain 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 will be reclassified as equity.

On February 16, 2010 the Company announced an Offer to Exchange common stock for outstanding warrants. At the time, the Company had 35,108,219 outstanding warrants. The exchange offer expired on March 17, 2010. Holders of the Company s warrants had the option to exchange their warrants for either One (1) share of Common Stock for every thirty-five (35) Warrants tendered, or One (1) share of Common Stock for every twenty-five (25) Warrants tendered, provided the recipient agreed to be subject to a lock-up provision precluding transfer of the shares of Common Stock received for six months following the expiration of the Exchange Offer. Based on the final count, 25,635,723 Warrants were properly tendered; 24,766,700 were tendered for shares of Common Stock subject to a lock-up, and 869,023 were tendered for unrestricted shares of Common Stock. Under the terms of the Exchange Offer, the Company issued an aggregate of 1,015,489 shares of Common Stock in exchange for the tendered Warrants. There are 8,329,638 publicly held warrants (issued in connection with the IPO) and 1,142,858 privately held warrants remaining after the exchange.

The fair value of the Company s 8,329,638 and 33,750,502 warrants issued in connection with the IPO outstanding at March 31, 2010 and December 31, 2009, respectively, were liabilities of $583,000 or $0.07 per warrant and $2,025,000 or $0.06 per warrant, respectively.

At March 31, 2010, the Company had a single interest rate swap agreement in effect to fix its LIBOR-based variable rate debt. The interest rate swap agreement, which expires in December 2010, had a notional value of $16,000,000 on March 31, 2010 and a fixed rate of 4.29%. The fair value of the Company s interest rate swap outstanding at March 31, 2010 and December 31, 2009 was a liability of $460,000 and $645,000, respectively. The Company has elected not to designate the swap as a cash flow hedge, in accordance with ASC 815 (formerly SFAS No. 133). The fair value of the swap is therefore shown on the Company s balance sheet and the unrealized changes in the value of the swap are shown in the Company s statement of operations within Loss on derivatives .

Total derivative liabilities are as follows (in thousands):

	March 31, 2010	December 31, 2009
Warrant liability	$ 583	$ 2,025
Interest rate swap liability	460	645
Total	$ 1,043	$ 2,670

		Fair Value Measurements at Reporting Date Using		
Description	March 31, 2010	Quoted Prices in Active Markets for Identical Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Warrant liability	$ 583	$ 583	$	$
Interest rate swap liability	$ 460		460	
Total	$ 1,043	$ 583	$ 460	

		Fair Value Measurements at Reporting Date Using		
		Quoted Prices in	Significant Other	Significant

Description	December 31, 2009	Active Markets for Identical Liabilities (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Warrant liability	$ 2,025	$ 2,025	$	$
Interest rate swap liability	$ 645		645	
Total	$ 2,670	$ 2,025	$ 645	

7. Debt and other Long-term Obligations

The Company entered into a $32,703,000 term loan from I-Flow, subject to the Credit and Guaranty Agreement between the Company and I-Flow dated as of October 25, 2007 (the Credit and Guaranty Agreement). The loan expires on October 25, 2011. On November 24, 2009, Kimberly-Clark Corporation acquired I-Flow in a cash tender offer and subsequent merger. As outlined in the credit agreement for the term loan, the agreement is binding upon and inures to the benefit of the Borrower, the Guarantors, the Lender, all future holders of the Term Loan and their respective successors and assigns.

The loan bears interest at LIBOR (subject to a 3% floor) plus 5.5%, or Prime (subject to a 4% floor) plus 4.5%, at the Company s option. The loan is a variable rate loan and therefore fair value approximates book value. At March 31, 2010, the rate in effect was 8.5%. The Company paid $818,000 in principal payments and $461,000 in cash interest payments to I-Flow during the three months ended March 31, 2010.

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 loan and capital leases are as follows (in thousands):

	4/1/10 12/31/10	2011	2012	2013	2014	Total
Loan	$ 4,111*	$ 16,757	$	$	$	$ 20,868
Capital Lease	533	766	834	725	34	$ 2,892
Total	$ 4,644	$ 17,523	$ 834	725	34	$ 23,760

* Includes $1,249,000 excess cash flow principal prepayment that was made on April 8, 2010, as required by the term loan Credit and Guaranty Agreement.

The Kimberly-Clark (I-Flow) term loan is collateralized by substantially all of the Company s assets and requires the Company to comply with covenants principally relating to satisfaction of a fixed charge coverage ratio, a leverage ratio, an annual limit on capital expenditures and minimum earnings before interest, taxes, depreciation and amortization (EBITDA). As of March 31, 2010, the Company believes it was in compliance with all such covenants, and also believes it will remain in compliance for at least the next 12 months. In addition, under the terms of the Credit and Guaranty Agreement, the Company is not permitted to pay any dividends, purchase, redeem, issue or retire any equity interests (including common stock and warrants) or complete any business acquisitions.

In conjunction with the Credit and Guaranty Agreement, the Company incurred deferred debt issuance costs of $2,052,000. These costs will be recognized in income using the effective interest method through the maturity date of October 2011. Amortization of these costs for the three months ended March 31, 2010 and 2009 was $107,000 and $143,000, respectively, which was recorded in interest expense.

8. Income Taxes

Provision for income taxes was $310,000 for the three months ended March 31, 2010, compared to $140,000 for the three months ended March 31, 2009.

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. At March 31, 2010 and December 31, 2009, a valuation allowance was applied against the deferred tax assets because based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

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9. Related Party Transactions

Two members of the Company s board of directors are former Managing Directors of FTN Midwest, the underwriter of the Company s IPO. Sean McDevitt resigned from his position as Managing Director of FTN Midwest effective January 19, 2007 and Pat LaVecchia resigned from his position as Managing Director of FTN Midwest effective February 2, 2007. FTN Midwest received an underwriting discount of 7%, a non-accountable expense allowance of 1% and an option to purchase 833,333 shares for a fee of $100. The Company reserved in its treasury 2,000,000 shares of common stock for issuance to Sean McDevitt and 416,666 shares of common stock for issuance to Pat LaVecchia. The consummation of the transaction resulted in 925,531 of these shares being issued at October 25, 2007. Of the remaining 1,491,135 shares, 257,091 were issued in 2008 and 1,234,044 were issued in February 2009.

Effective September 7, 2009, Steve Watkins resigned as Chief Executive Officer and Director of the Company. In connection with Mr. Watkins resignation, the Board of Directors (the Board) has (i) appointed Sean McDevitt, the current Chairman of the Board, as Chief Executive Officer and (ii) formed an Executive Committee consisting of Chairman Sean McDevitt, Wayne Yetter and John Voris, with Mr. McDevitt serving as Executive Chairman.

As discussed in Note 7 Debt and other Long-term Obligations , the Company entered into a $32,703,000 term loan from I-Flow, subject to the Credit and Guaranty Agreement.

Prior to the Company s acquisition of InfuSystem, InfuSystem had been providing billing and collection services to I-Flow for its ON-Q® product. On October 25, 2007, InfuSystem and I-Flow entered into an Amended and Restated Services Agreement (the Services Agreement) pursuant to which InfuSystem agreed to continue to provide I-Flow with these services, and I-Flow agreed to pay InfuSystem a monthly service fee. During the three months ended March 31, 2010 and 2009, the Company recorded revenues of $0 and $112,000 from this arrangement. There was no outstanding receivable amount due as of March 31, 2010.

On November 8, 2007, I-Flow informed the Company that it was terminating the Services Agreement effective May 10, 2008. In May 2008, both parties extended and amended the Services Agreement for one month, upon substantially the same terms and conditions as the original agreement. From June 2008 through December 1, 2008, the parties operated without a written agreement upon substantially the same terms and conditions as the original Services Agreement, with the exception that the original 40% mark-up was increased to 50%. On December 2, 2008, the Company agreed with I-Flow to extend the Services Agreement to September 30, 2009. Pursuant to the terms of the extension, the service fee paid to the Company through January 31, 2009 was calculated based on a 50% mark up. Effective February 1, 2009 through June 30, 2009, the service fee was equal to 30% of the total actual net cash collections (net of adjustments) received during such month on behalf of I-Flow. I-Flow also reimbursed the Company monthly for the portion of the Company s lease cost associated with the office space dedicated to this operation. Effective July 1, 2009 the Company and I-Flow agreed to continue the services arrangement on a month to month basis, during which time I-Flow reimbursed the Company the greater of 30% of net cash collections or $3,000. The service was discontinued effective August 31, 2009.

In connection with the warrant exchange as described in Note 6 to these consolidated financial statements, three present Company board members exchanged 186,287 privately held warrants under the lock-up provision for 7,451 shares of common stock.

10. Commitments and Contingencies

Certain of the Company s directors committed to purchase up to $1,000,000 of the Company s warrants from the Company in a private placement at a price of $.70 per warrant subsequent to the filing of the preliminary proxy statement seeking stockholder approval of the acquisition of InfuSystem. Such officers and directors agreed not to sell or transfer the warrants until after the Company consummated a business combination. The warrants have an exercise price of $5.00 per share of common stock and became exercisable commencing on October 25, 2007, the acquisition date, and expire April 11, 2011 or earlier upon redemption by the Company. The Company may call the warrants for redemption in whole and not in part at a price of $0.01 per warrant at anytime after the warrant becomes exercisable. The warrants cannot be redeemed unless the holder receives written notice not less than 30 days prior to the redemption and if and only if, the reported last price of the common stock equals or exceeds $8.50

per share for any 20 trading days within a 30 day period ending on the third day of business prior to the notice of redemption to warrant holders. The Company has fully reserved the shares underlying the warrants as authorized but not issued. The warrants issued and sold in 2006 and 2007 were not registered under the Securities Act of 1933, as amended (the Securities Act). As a result, the warrants and the common stock issuable upon exercise of the warrants may not be sold unless they have been registered pursuant to a registration statement filed under the Securities Act or pursuant to an available exemption from the registration requirements of the Securities Act as evidenced by an opinion of counsel reasonably satisfactory to the Company. There are 1,142,858 privately held warrants remaining after the exchange as discussed in Note 6 to these consolidated financial statements.

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.

Effective September 7, 2009, Steve Watkins resigned as Chief Executive Officer and Director of the Company. In connection with his resignation, the Company entered into a separation agreement with Mr. Watkins in which the Company will pay Mr. Watkins his annual base salary of $310,500 for a period of two years following the resignation date in accordance with the Company s regular payroll practices. Also, the Company agreed to pay a bonus in the amount of $150,000 for the 2009 calendar year within thirty days of the resignation date; such amount was paid in October 2009. The Company will continue to pay for Mr. Watkins existing health insurance benefits for a period of two years following the resignation date. Additionally, any unvested portions of Mr. Watkins stock options and restricted share grants vested pro rata based upon his services to the Company as Chief Executive Officer during the 2009 calendar year.

The Company entered into an operating lease on March 27, 2009 for a new office building. The lease commenced on July 1, 2009 and expires on June 30, 2012. The approximate minimum future lease commitments are $122,000, $162,000 and $81,000 for 2010, 2011 and 2012, respectively.

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. During the quarter ended March 31, 2009, the Company granted stock options.

As of March 31, 2010, 1,138,000 common shares remained available for future grant under the 2007 Stock Incentive Plan.

Restricted Shares

Restricted shares entitle the holder to receive, at the end of a vesting period, 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. The following table summarizes restricted share activity for the three months ended March 31, 2010:

	Number of shares (In thousands)	Weighted average grant date fair value
Unvested at January 1, 2010	324	$ 2.86
Vested	(15)	$ 2.90
Vested shares forgone to satisfy minimum statutory withholding	(10)	$ 2.90
Forfeitures	(1)	$ 2.58

Unvested at March 31, 2010	298	$ 2.85

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As of March 31, 2010, there was $277,000 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 2.75 years.

Stock Options

There were no stock options granted during the three months ended March 31, 2010. During the three months ended March 31, 2009, the Company granted 30,000 stock options at an exercise price of $1.85 per share which was the market price on the date of grant.

Stock-based compensation expense

The following table shows total stock-based compensation expense, related to all of the Company s equity awards in accordance with ASC 718 (formerly SFAS No. 123(R)) (in thousands):

	Three Months Ended March 31,	
	2010	**2009**
Restricted share expense	$ 100	$ 226
Stock option expense		52
Total stock-based compensation expense	$ 100	$ 278

12. Employee Benefit Plans

The Company has a 401(k) defined contribution plan in place for eligible employees. Employees of the Company working more than 1,040 hours annually may participate in the 401(k) Plan. The Company contributes $0.33 for each dollar of employee contribution up to a maximum contribution by the Company of 1.32% of each participant s annual salary. The maximum contribution by the Company of 1.32% corresponds to an employee contribution of 4% of annual salary. Participants vest in the Company s contribution ratably over five years. Such contributions totaled $15,000 and $18,000 for the three months ended March 31, 2010 and 2009, respectively. The Company does not provide post-retirement or post-employment benefits to its employees.

13. Subsequent Events

On April 6, 2010 the Company and Sean McDevitt, the Company s Chief Executive Officer, entered into a share award agreement that granted Mr. McDevitt the right to receive an aggregate of up to 2,000,000 shares of common stock of the Company upon the attainment of specified trading price levels and pursuant to certain other terms and conditions. The Agreement was approved by the Compensation Committee of the Board of Directors.

On April 6, 2010 each of the Company s Directors, including Sean McDevitt, were granted restricted stock awards pursuant to the Company s Plan. The Directors in the aggregate were awarded 1,125,000 restricted shares of the Company s common stock vesting over a three year period. The grants were approved by the Compensation Committee.

As described in note 7 to these consolidated financial statements, the Company made an excess cash flow principal prepayment of $1,249,000 on April 8, 2010, as required by the term loan Credit and Guaranty Agreement.

The Company has performed an analysis of subsequent events and has concluded that there are no other significant subsequent events requiring disclosure as of the date the consolidated financial statements were issued.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations
InfuSystem Holdings, Inc. Overview

We were formed as a Delaware blank check company in 2005 for the purpose of acquiring through a merger, capital stock exchange, asset acquisition or other similar business combination, one or more operating businesses in the healthcare sector. On September 29, 2006, we entered into a Stock Purchase Agreement with I-Flow Corporation (I-Flow), Iceland Acquisition Subsidiary, Inc. (Acquisition Subsidiary) and InfuSystem, Inc. (InfuSystem). Upon the closing of the transactions contemplated by the Stock Purchase Agreement on October 25, 2007, Acquisition Subsidiary purchased all of the issued and outstanding capital stock of InfuSystem from I-Flow and concurrently merged with and into InfuSystem. As a result of the merger, Acquisition Subsidiary ceased to exist as an independent entity and InfuSystem, as the corporation surviving the merger, became our wholly-owned subsidiary. Effective October 25, 2007, we changed our corporate name from HAPC, INC. to InfuSystem Holdings, Inc.

Results of Operations

Revenues

Our revenue is predominantly derived from our rental of ambulatory infusion pumps which are primarily used for continuous infusion of chemotherapy drugs for patients with colorectal cancer. Our revenue for the quarter ended March 31, 2010 was $10,934,000, a 19% improvement compared to $9,227,000 for the quarter ended March 31, 2009. The increase in revenues is primarily due to obtaining business at new customer facilities, as well as deeper penetration into existing customer facilities.

Management anticipates that new revenue growth will come from continuing to obtain business from new customer facilities, sales of additional products and services, as well as the expansion of the existing use of our ambulatory infusion pumps for the treatment of colorectal cancer, as well as head, neck and gastric cancer. Another aspect of our business strategy is to actively pursue opportunities for the expansion of our business through strategic alliances, joint ventures and/or acquisitions.

Cost of Revenues

Cost of revenues, which consists of product and supply costs, including freight costs for the transport of pumps and supplies to and from oncology practices, and depreciation and disposals related to our infusion pumps, was $2,814,000 for the quarter ended March 31, 2010, a 33% increase compared to $2,110,000 for the quarter ended March 31, 2009. The increase was primarily related to increased revenues, an expected increase in pump depreciation, as well as higher pump repair and maintenance costs. As a percentage of revenues, cost of revenues were approximately 26% for the quarter ended March 31, 2010, compared to approximately 23% for the quarter ended March 31, 2009.

Amortization of Intangible Assets

Amortization of intangible assets for the quarter ended March 31, 2010 was $487,000, compared to $457,000 for the quarter ended March 31, 2009. The slight increase is related to the amortization of recently acquired software. For more information, please refer to the discussion under Summary of Significant Accounting Policies Intangible Assets included in Note 2 and Goodwill and Intangible Assets included in Note 5 to our Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

Provision for doubtful accounts

Provision for doubtful accounts for the quarter ended March 31, 2010 was $1,393,000, compared to $969,000 for the quarter ended March 31, 2009. The provision for doubtful accounts has increased slightly from

11% to 13% of revenues for the quarter ended March 31, 2010, compared to the quarter ended March 31, 2009. The increase, as a percentage of revenue, is related to an increase in the mix of billings directly to patients, as compared to billings to third-party payors, as well as a slight decrease in the amount expected to be collected from patients.

Selling and Marketing Expenses

During the quarter ended March 31, 2010, our selling and marketing expenses were $1,442,000, compared to $1,320,000 for the quarter ended March 31, 2009. Selling and marketing expenses during these periods consisted of sales salaries, commissions and associated fringe benefit and payroll-related items, travel and entertainment, marketing, share-based compensation, and other miscellaneous expenses. These expenses have decreased slightly as a percentage of revenues, at approximately 13% for the quarter ended March 31, 2010 and approximately 14% for the quarter ended March 31, 2009.

General and Administrative Expenses

During the quarter ended March 31, 2010, our general and administrative expenses were $3,306,000, compared to $3,110,000 for the quarter ended March 31, 2009. General and administrative expenses during these periods consisted primarily of administrative personnel (including management and officers) salaries, fringe benefits and payroll-related items, professional fees, share-based compensation, insurance (including directors and officers insurance) and other miscellaneous expenses. The expenses in total have decreased from 34% to 30% of revenues. The decrease, as a percentage of revenues, for the quarter ended March 31, 2010 is primarily driven by a decrease in stock based compensation and various other miscellaneous administrative expenses.

Other Income and Expenses

During the quarter ended March 31, 2010, we recorded a loss on derivatives of $389,000, compared to a loss of $2,642,000 during the quarter ended March 31, 2009. Included in these losses were unrealized losses from the change in the fair value of our warrants of $83,000 and $2,700,000 for the quarters ended March 31, 2010 and March 31, 2009, respectively, and unrealized gains resulting from the change in the fair value of our single interest rate swap of $185,000 and $58,000 for the quarters ended March 31, 2010 and March 31, 2009, respectively. Also included in the loss for the quarter ended March 31, 2010, was a loss of $491,000 recorded in connection with the warrant exchange. For more information, please refer to the discussion under Summary of Significant Accounting Policies Warrants and Derivative Financial Instruments included in Note 2 and Warrants and Derivative Financial Instruments included in Note 6 to our Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

During the quarter ended March 31, 2010, we recorded interest expense of $805,000, compared to $986,000 for the quarter ended March 31, 2009. These amounts consist of interest paid to Kimberly-Clark (formerly I-Flow) on our term loan, the amortization of deferred debt issuance costs incurred in conjunction with the loan, expense associated with the interest rate swap, and interest paid on capital leases used to finance the acquisition of ambulatory pumps. The decrease is primarily the result of a decrease in interest expense on the term loan with Kimberly-Clark (formerly I-Flow). This was the result of a decrease in the outstanding balance due to significant principal payments made during the period between March 31, 2009 and March 31, 2010. The decrease was partially offset by interest expense related to new capital leases that we entered into since March 31, 2009 to finance the purchase of ambulatory pumps.

During the quarter ended March 31, 2010, we recorded income tax expense of $310,000, compared to $140,000 during the three months ended March 31, 2009. The increase is primarily due to an increase in pretax income (excluding loss on warrants) for the quarter ended March 31, 2010, compared to the quarter ended March 31, 2009.

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 ambulatory infusion pumps during the period from December 31, 2009 through March 31, 2010.

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Liquidity and Capital Resources

As of March 31, 2010 we had cash resources of $7,718,000 compared to $7,750,000 at December 31, 2009. The decrease in cash available to us was primarily due to capital expenditures, principal payments on our term loan with Kimberly-Clark (formerly I-Flow), partially offset by positive cash flow from operating activities.

Cash provided by operating activities for the three months ended March 31, 2010 was $1,463,000, compared to $1,269,000 for the three months ended March 31, 2009.

Cash used in investing activities for the three months ended March 31, 2010 was $537,000, compared to $585,000 for the three months ended March 31, 2009. The minor decrease for the quarter ended March 31, 2010 is primarily related to lower capital expenditures.

Cash used in financing activities for the three months ended March 31, 2010 was $958,000, compared to cash used in financing activities of $839,000 for the three months ended March 31, 2009. The increase for the quarter ended March 31, 2010 is primarily due to new capital leases entered into to finance the purchase of ambulatory infusion pumps during the period between March 31, 2009 and March 31, 2010.

As of March 31, 2010, we had cash and cash equivalents of $7,718,000, net accounts receivable of $6,516,000 and net working capital (excluding derivative liabilities) of $6,522,000, a slight increase compared to net working capital (excluding derivative liabilities) of $6,332,000 as of December 31, 2009. We have included in current liabilities $1,249,000 for the excess cash flow principal prepayment which was made on April 8, 2010, as required by the Kimberly-Clark (formerly I-Flow) term loan. Management believes the current funds, together with expected cash flows from ongoing operations, are sufficient to fund our operations for at least the next 12 months.

The Kimberly-Clark (formerly I-Flow) term loan is collateralized by substantially all of our assets and requires us to comply with covenants principally relating to satisfaction of a fixed charge coverage ratio, a leverage ratio, an annual limit on capital expenditures and minimum earnings before interest, taxes, depreciation and amortization (EBITDA). As of March 31, 2010, we believe we were in compliance with all such covenants. In addition, under the terms of the Credit and Guaranty Agreement, we are not permitted to pay any dividends or complete any business acquisitions.

Contractual Obligations

As of March 31, 2010, future payments related to contractual obligations are as follows (in thousands):

	Payment Due by Period (1) (2)				
	Less than 1 Year	**1 to 3 Years**	**3 to 5 Years**	**More than 5 Years**	**Total**
Debt obligations	$ 5,337*	$ 15,531	$	$	$ 20,868
Capital lease obligations	710	1,600	582		2,892
Operating lease obligations	162	203			365
Total	$ 6,209	$ 17,334	$ 582	$	$ 24,125

* Includes $1,249,000 excess cash flow principal prepayment that was made on April 8, 2010, as required by the term loan Credit and Guaranty Agreement.

(1) The table above does not include any potential payout to Kimberly-Clark (formerly I-Flow) associated with the earn-out provision in the Stock Purchase Agreement. For more information, please refer to the discussion under Acquisitions included in Note 3 to our Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

(2) 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 March 31, 2010 under a lease agreement we entered into on March 27, 2009 for a new office building. The lease commenced on July 1, 2009 and expires on June 30, 2012.

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, including 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 Annual Report on Form 10-K. 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

Our strategic focus 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: persuasive evidence of an arrangement exists; services have been rendered; the price to the customer is fixed or determinable; and collectability is reasonably assured. Persuasive evidence of an arrangement is determined to exist, and collectability is reasonably assured, when we receive a physician s order and assignment of benefits, signed by the physician and patient, respectively, and we have verified actual pump usage and insurance coverage. 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 contracted payor is Medicare, which accounted for approximately 31% of our gross billings for the quarter ended March 31, 2010. We have contracts with various individual Blue Cross/Blue Shield affiliates which in the aggregate accounted for approximately 23% of our gross billings for the quarter ended March 31, 2010.

No individual payor (other than Medicare and the Blue Cross/Blue Shield entities) accounts for greater than approximately 6% of our gross billings.

Accounts Receivable and Allowance for Doubtful Accounts

We have agreements with third-party payors which provide for payments at amounts different from established rates. Accounts receivable and net revenue are reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered. We perform periodic analyses to assess the accounts receivable balances. We 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.

Substantially all of our receivables are related to providing healthcare services to patients. Accounts receivable are reduced by an allowance for amounts that could become uncollectible in the future. Our estimate for our 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 our financial position, results of operations, and cash flows.

Warrants and Derivative Financial Instruments

On April 18, 2006, we consummated an 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 us one share of our common stock at an exercise price of $5.00. On May 18, 2006, we sold an additional 208,584 units to FTN Midwest Securities Corp., the underwriter of our IPO (FTN Midwest), pursuant to a partial exercise by FTN Midwest of its overallotment option. The Warrant Agreement provides for us to register the shares underlying the warrants in the absence of our ability to deliver registered shares to the warrant holders upon warrant exercise.

On February 16, 2010 we announced an Offer to Exchange common stock for outstanding warrants. At the time, we had 35,108,219 outstanding warrants. The exchange offer expired on March 17, 2010. Holders of the Company s warrants had the option to exchange their warrants for either One (1) share of Common Stock for every thirty-five (35) Warrants tendered, or One (1) share of Common Stock for every twenty-five (25) Warrants tendered, provided the recipient agreed to be subject to a lock-up provision precluding transfer of the shares of Common Stock received for six months following the expiration of the Exchange Offer. Based on the final count, 25,635,723 Warrants were properly tendered; 24,766,700 were tendered for shares of Common Stock subject to a lock-up, and 869,023 were tendered for unrestricted shares of Common Stock. Under the terms of the Exchange Offer, we issued an aggregate 1,015,489 shares of Common Stock in exchange for the tendered Warrants. After the exchange, there are 8,329,638 publicly held warrants and 1,142,858 privately held warrants outstanding.

In September 2000, the Emerging Issues Task Force issued ASC 815 (formerly EITF 00-19, *Accounting for Derivative Financial Instruments Indexed to and Potentially Settled in, a Company s Own Stock*), which 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 our 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.

In accordance with ASC 815, the 8,329,638 remaining warrants issued in connection with the IPO and overallotment to purchase common stock must be settled in registered shares and are separately accounted for as liabilities as discussed in Note 6 to our Consolidated Financial Statements. The fair value of these warrants is shown on our balance sheet and the unrealized changes in the value of these warrants are shown in our statement of operations as (Loss) gain on derivatives. These warrants are freely traded on the Over the Counter Bulletin Board. Consequently, the fair value of these warrants is estimated as the market price of the warrant at each period end. To the extent the market price increases or decreases, our warrant liabilities will also increase or decrease with a corresponding impact on our results of operations within Loss on derivatives .

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Sales of warrants that can be settled in unregistered shares of common stock, as discussed in Note 10, are treated as equity and included in additional paid in capital. The total warrants issued to date that can be settled in unregistered shares of common stock are 1,142,858 at an issue price of $.70 per warrant or a total issue price of $800,000.

ASC 815 (formerly SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities)*, 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.

In December 2007, we entered into a single interest rate swap to hedge the exposure associated with our floating rate debt. We have elected not to designate the swap as a cash flow hedge, in accordance with ASC 815. The fair value of the swap is therefore shown on our balance sheet and the unrealized changes in the value of the swap are shown in our statement of operations within (Loss) gain on derivatives .

Income Taxes

We account for income taxes in accordance with ASC 740 (formerly SFAS No. 109, *Accounting for 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 benefit (expense) 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, please refer to the Income Taxes discussion included in Note 8 to our Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

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 (formerly SFAS No. 142, *Goodwill and Other Intangible Assets),* 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. We performed the annual impairment test at October 31, 2009, and determined there was no impairment of goodwill. No events have occurred subsequent to October 31, 2009 that indicates impairment may have occurred. Management does not believe impairment of our goodwill existed at March 31, 2010.

Recently Issued Accounting Pronouncements

In December 2007, the FASB issued ASC 805 (formerly SFAS No. 141(R), *Business Combinations)*. This statement retains the fundamental requirements of the original pronouncement requiring that the acquisition method of accounting, or purchase method, be used for all business combinations. This standard requires, among other things, expensing of acquisition related and restructuring related costs, measurement of pre-acquisition contingencies at fair value, measurement of equity securities issued for purchase at the date of close of the transaction and capitalization of in process research and development, all of which represent modifications to current accounting for business combinations. This standard is effective for fiscal years beginning after December 15, 2008. We adopted this standard effective January 1, 2009, and it did not have an impact on our consolidated financial position, results of operations or cash flows.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

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At March 31, 2010, the principal plus accrued interest on our term loan with Kimberly-Clark (formerly I-Flow) was $20,868,000. The term loan bears interest at LIBOR (subject to a 3% floor) plus 5.5% or Prime (subject to a 4% floor) plus 4.5%, at our option. The loan is a variable rate loan and therefore fair value approximates book value. Please see the heading Debt and other Long-term Obligations under Note 7 to our Consolidated Financial Statements included in this Quarterly Report on Form 10-Q for a further discussion of our term loan with Kimberly-Clark (formerly I-Flow).

At March 31, 2010, we had one interest rate swap agreement in effect to fix our LIBOR-based variable rate debt. The interest rate swap agreement, which expires in December 2010, had a notional value of $16,000,000 on March 31, 2010 and a fixed rate of 4.29%.

Based on the term loan outstanding and the swap agreement in place at March 31, 2010, a decrease in LIBOR to zero (which is less than a 100 basis point decrease) would have decreased our cash flow and pretax earnings for the three months ended March 31, 2010 by approximately $9,000, while a 100 basis point increase in LIBOR would have increased our cash flow and pretax earnings for the three months ended March 31, 2010 by approximately $41,000. The results of this sensitivity analysis are entirely attributable to our single interest rate swap, as changes of this magnitude to the LIBOR rate would have had no impact on our interest payments on the term loan, as they would have still resulted in a rate below the 3% LIBOR floor.

We have classified certain warrants as derivative liabilities, which resulted in a liability of $583,000 at March 31, 2010. We classified the warrants as derivative liabilities because there is a possibility that we may be required to settle the warrants in registered shares of common stock. We are required to compare the fair market value of these instruments from the date of the initial recording to their fair market value as of the end of each reporting period and to reflect the change in fair market value in our Consolidated Statements of Operations as a gain or loss for the applicable period.

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, 2009. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer each concluded that our disclosure controls and procedures are effective, at the reasonable assurance level, as of the end of the period covered by this Quarterly Report on Form 10-Q, as of March 31, 2010.

Change in Internal Control

We have made no changes during the three months ended March 31, 2010 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

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SIGNATURES

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

INFUSYSTEM HOLDINGS, INC.

Date: May 5, 2010

By: /s/ Sean Whelan
Sean Whelan

Chief Financial Officer

(Principal Financial Officer)

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