

InfuSystem Holdings, Inc
Form 10-K
March 16, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C., 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2011

Commission File Number: 001-35020

INFUSYSTEM HOLDINGS, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction of

Incorporation or Organization)

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

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31700 Research Park Drive

Madison Heights, Michigan 48071

(Address of Principal Executive Offices) (Zip Code)

Registrant's Telephone Number, including Area Code:

(248) 291-1210

Securities Registered Pursuant to Section 12(b) of the Act:

| Title of Each Class | Name of Exchange on which Registered |
|--|--------------------------------------|
| Common Stock, par value \$0.0001 per share | New York Stock Exchange Amex |

Securities Registered Pursuant to Section 12(g) of the Act:

None

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES NO

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 of 1934 during the preceding 12 months (or for such shorter periods as the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (check one)

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES NO

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The aggregate market value of the registrant's voting equity held by non-affiliates of the registrant, computed by reference to the price at which the common stock was last sold as of the last business day of the registrant's most recently completed second fiscal quarter, was \$37,577,436. In determining the market value of the voting equity held by non-affiliates, securities of the registrant beneficially owned by directors and officers of the registrant have been excluded. This determination of affiliate status is not necessarily a conclusive determination for other purposes. The number of shares of the registrant's common stock outstanding as of February 27, 2012 was 21,330,235.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of this registrant's definitive proxy statement for its 2011 Annual Meeting of Stockholders to be filed with the SEC no later than 120 days after the end of the registrant's fiscal year are incorporated herein by reference in Part III of this Annual Report on Form 10-K.

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Cautionary Statement about Forward-Looking Statements

This Annual Report on Form 10-K includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act) and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). All statements other than statements of historical facts contained in this Annual Report on Form 10-K, including statements regarding the future financial position, business strategy, plans, and objectives of management for future operations, are forward-looking statements. The words believe, may, will, estimate, continue, anticipate, intend, should, plan, expect, and similar expressions, as they relate to us, are intended to identify forward-looking statements. We have based these forward-looking statements largely on current expectations and projections about future events and financial trends that we believe may affect financial condition, results of operations, business strategy and financial needs. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including, without limitation, those described in Risk Factors and elsewhere in this Annual Report on Form 10-K, including, among other things:

change in control, as defined by the agreement governing the Credit Facility;

dependence on our Medicare Supplier Number;

changes in third-party reimbursement rates;

availability of chemotherapy drugs used in our infusion pump systems;

physicians' acceptance of infusion pump therapy over oral medications;

our growth strategy, involving entry into new fields of infusion-based therapy;

the current global financial crisis;

State licensure laws for durable medical equipment (DME);

healthcare reform legislation;

failure to comply with healthcare regulations;

dependence on key personnel;

volatility of our stock price;

industry competition; and

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dependence upon our suppliers.

These risks are not exhaustive. Other sections of this Annual Report on Form 10-K include additional factors which could adversely impact our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for us to predict all risk factors, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

You should not rely upon forward-looking statements as predictions of future events. We cannot assure you that the events and circumstances reflected in the forward-looking statements will be achieved or occur. Although we believe that the expectations reflected in the forward looking-statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements.

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PART I

References in this Annual Report on Form 10-K to we, us, or the Company are to InfuSystem Holdings, Inc. (InfuSystem) and our wholly owned subsidiaries.

**Item 1. Business.
Background**

InfuSystem Holdings, Inc. is a Delaware corporation, formed in 2005. It operates through operating subsidiaries, including InfuSystem, Inc., a California corporation (InfuSystem) and First Biomedical, Inc., a Kansas corporation (First Biomedical).

Business Concept and Strategy

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

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

We provide these pumps and related supplies to oncology clinics, obtain an assignment of insurance benefits from the patient, and bill the patient's insurance company or patient as appropriate, for the use of the pump and supplies, and collect payment. We also provide pump management services for the pumps and associated disposable supply kits to approximately 1,400 oncology clinics in the United States, while retaining title to the pumps during this process.

In addition, we sell, rent and lease new and pre-owned pole mounted and ambulatory infusion pumps to oncology practices and provide biomedical certification, maintenance and repair services for, these same oncology practices as well as to other alternate site settings including home care and home infusion providers, skilled nursing facilities, pain centers and others in the United States and Canada. We also provide these products and services to customers in the hospital market.

One aspect of our business strategy is to expand into treatment of other cancers. We currently generate approximately 20% of our revenue from treatments for disease states other than colorectal cancer. There are a number of approved treatment regimens for head and neck, pancreatic, esophageal and other gastric cancers which present opportunities for growth. There are also a number of other drugs currently approved by the U.S. Food and Drug Administration (the FDA), as well as agents in the pharmaceutical development pipeline, which we believe could potentially be used with continuous infusion protocols for the treatment of other diseases in addition to colorectal cancer. Drugs or protocols currently in clinical trials may also obtain regulatory approval over the next several years. If these new drugs obtain regulatory approval for use with continuous infusion protocols, we expect the pharmaceutical companies to focus their sales and marketing forces on promoting the new drugs and protocols to physicians.

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. We believe there are opportunities to acquire smaller, regional competitors that perform similar services to us but do not have the national market access, a

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network of third party payor contracts or operating economies of scale that we currently enjoy. We also plan to leverage our extensive networks of oncology practices and insurers by distributing complementary products and introducing key new services.

We face risks that other competitors can provide the same services as us. Those risks are currently mitigated by our existing third party payor contracts and economies of scale, which allow for predictable reimbursement and less costly purchase and management of the pumps, respectively. Additionally, we have already established a long standing relationship as a provider of pumps to approximately 1,400 oncology clinics in the United States. We believe that there are competitive barriers to entry against other suppliers with respect to these oncology clinics because we have an established national presence and third party payor contracts in place covering approximately 215 million third party payor lives (i.e., persons enrolled in various managed care plans or commercial insurance carriers such as health maintenance organizations and preferred provider organizations) increasing the likelihood that we participate in the insurance networks of patients to whom physicians wish to refer an ambulatory infusion pump provider. Moreover, we have an available inventory of approximately 24,000 active ambulatory infusion pumps, which may allow us to be more responsive to the needs of physicians and patients than a new market entrant. We do not perform any research and development.

Continuous Infusion Therapy

Continuous infusion of chemotherapy involves the gradual administration of a drug via a small, lightweight, portable electronic infusion pump over a prolonged period of time, defined as greater than 8 hours, and up to 24 hours daily. A cancer patient can receive his or her medicine anywhere from 1 to 30 days per month depending on the chemotherapy regimen that is most appropriate to that individual's health status and disease state. This may be followed by periods of rest and then repeated cycles with treatment goals of progression free disease survival. This drug administration method has replaced intravenous push or bolus administration in specific circumstances. The advantages of slow continuous low doses of certain drugs are well documented. Clinical studies support the use of continuous infusion chemotherapy for decreased toxicity without loss of anti-tumor efficacy. The 2010/2011 National Comprehensive Cancer Network (NCCN) Guidelines recommend the use of continuous infusion for treatment of numerous cancer diagnoses. We believe that the growth of continuous infusion therapy is driven by three factors: evidence of improved clinical outcomes; lower toxicity and side effects; and a favorable reimbursement environment.

In the past decade, significant progress has been made in the treatment of colorectal cancer due to advances in surgery, radiotherapy and chemotherapy. In the late 1990s, medical researchers discovered that the delivery method of the drug (or schedule) was a key component to drug availability, efficacy and tolerability. Schedule dependent anti-tumor activity and toxicity has resulted in continuous infusion 5-Fluorouracil being adopted as the standard of care. In 2000, the FDA approved Camptosar (the trade name for the generic chemotherapy drug Irinotecan), a drug developed by Pfizer, for first-line therapy in combination with 5-Fluorouracil for the treatment of colorectal cancer. In 2002, the FDA approved Eloxatin (the trade name for the generic chemotherapy drug Oxaliplatin), a drug developed by Sanofi-Aventis, for use in combination with continuous infusion 5-Fluorouracil for the treatment of colorectal cancer. FOLFIRI, the chemotherapy protocol which includes Camptosar in combination with continuous infusion 5-Fluorouracil and the drug Leucovorin, and FOLFOX, the chemotherapy protocol which includes Eloxatin in combination with continuous infusion 5-Fluorouracil and Leucovorin, have resulted in significantly improved overall survival rates for colorectal cancer patients at various stages of the disease state. We believe that Sanofi-Aventis and Pfizer have each dedicated significant resources to educating physicians and promoting the use of FOLFOX and FOLFIRI. Simultaneously, the NCCN has established these regimens as the standards of care for the treatment of colorectal cancer.

The use of continuous infusion has been demonstrated to decrease or alter the toxicity of a number of cytotoxic, or cell killing agents. Higher doses of drugs can be infused over longer periods of time, leading to improved tolerance and decreased toxicity. For example, the cardiotoxicity (heart muscle

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damage) of the chemotherapy drug Doxorubicin is decreased by schedules of administration (The Chemotherapy Source Book, Perry, M.C.). Nausea, vomiting, diarrhea and decreased white blood cell and platelet counts are all affected by duration of delivery. Continuous infusion can lead to improved tolerance and patient comfort while enhancing the patient's ability to remain on the chemotherapy regimen. Additionally, the lower toxicity profile and resulting reduction in side effects enables patients undergoing continuous infusion therapy to continue a relatively normal lifestyle, which may include continuing to work, go shopping, and care for family members. We believe that the partnering of physician management and patient autonomy provide for the highest quality of care with the greatest patient satisfaction.

We believe that oncology practices have a heightened sensitivity to whether and how much they are reimbursed for services. Simultaneously, the Center for Medicare and Medicaid Services (CMS) and private insurers are increasingly focusing on evidence based medicine to inform their reimbursement decisions—that is, aligning reimbursement with clinical outcomes and adherence to standards of care. Continuous infusion therapy is a main component of the standard of care for certain cancer types because clinical evidence demonstrates superior outcomes. Payors recognize this and it is reflected in favorable reimbursement for clinical services related to the delivery of this care.

Services

Our core service is to provide oncology offices, infusion clinics and hospital out-patient chemotherapy clinics with ambulatory infusion pumps in addition to related supplies for patient use. We then directly bill and collect payment from payors and patients for the use of these pumps. We own approximately 24,000 ambulatory infusion pumps which are dedicated to this service offering. At any given time, it is estimated that approximately 60% of the pumps are in the possession of the oncology clinics. The remainder of the pumps are either in transport for cleaning and calibration or in oncology clinics as back-ups.

After a doctor determines that a patient is eligible for ambulatory infusion pump therapy, the doctor arranges for the patient to receive an infusion pump and provides the necessary chemotherapy drugs. The oncologist and nursing staff train the patient in the use of the pump and initiate service. The physician bills Medicare, Medicaid, third party payor companies (collectively—payors) or patients for the physician's professional services associated with initiating and supervising the infusion pump administration, as well as the supply of drugs. We directly bill payors for the use of the pump and related disposable supplies. We have contracts with more than 230 payors that cover approximately 215 million third party payor lives. Billing to payors requires coordination with patients and physicians who initiate the service, as physicians' offices must provide us with appropriate paperwork (patient's insurance information, physician's order and an acknowledgement of benefits that shows receipt of equipment by the patient) in order for us to bill the payors.

In addition to providing high quality and convenient care, we believe that our business offers significant economic benefits for patients, providers and payors.

We provide patients with 24-hour by 7 days (24x7) service and support. We employ oncology and intravenous certified registered nurses trained on ambulatory infusion pump equipment who staff our 24x7 hotline to address questions that patients may have about their pump treatment, the infusion pumps or other medical or technical questions related to the pumps.

Physicians use our services to outsource the capital commitment, pump service, maintenance and billing and administrative burdens associated with pump ownership. Our service also allows the doctor to continue a direct relationship with the patient and to receive professional service fees for setting up the treatment and administering the drugs.

We believe our services are attractive to payors because they are generally less expensive than hospitalization or home care.

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Other services we offer include the sales, rental and leasing of pole mounted and ambulatory infusion pumps to oncology practices, hospitals and other clinical settings. We own a fleet of approximately 20,000 new and used pole mounted and ambulatory pumps, representing approximately 70 makes and models of equipment which are dedicated to these services. These pumps are available for daily, weekly, monthly or annual rental periods as well as for sale or lease.

In addition to sales, rental and leasing services, we also provide biomedical maintenance, repair and certification services for the devices we offer as well as for devices owned by customers but not acquired through InfuSystem. We operate pump service and repair Centers of Excellence across the United States and Canada and employ a staff of highly trained technicians to provide these services.

Relationships with Physician Offices

We have business relationships with clinical oncologists in approximately 1,400 oncology clinics. Though this represents a substantial portion of the oncologists in the United States, we believe we can continue to expand our network to further penetrate the oncology market. Based on our retention rates and the positive results of our professional customer satisfaction research, we believe our relationships with physician offices are strong.

We believe that, in general, we do not compete directly with hospitals and physician offices to treat patients. Rather, by providing products and services to hospitals and physician offices and other care facilities and providers, we believe that we assist other providers in meeting increasing patient demand and manage institutional constraints on capital and manpower due to the nature of limited resources in hospitals and physician offices.

Sales and Marketing

We employ a sales team of approximately 40 salespersons to coordinate our sales and marketing activities. Our efforts are directed primarily at physician s offices, infusion clinics, hospital outpatient chemotherapy clinics and other enterprises serving patients who receive continuous infusions.

Employees

As of December 31, 2011, we had 197 employees, including 185 full-time employees and 12 part-time employees. None of our employees are unionized.

Material Suppliers

We supply a wide variety of pumps and associated equipment, as well as disposables and ancillary supplies. The majority of our pumps are electronic ambulatory pumps are purchased from the following manufacturers, each of which is material and supplies more than 10% of the ambulatory pumps purchased by us: Smiths Medical, Inc.; Hospira Worldwide, Inc.; and WalkMed Infusion, LLC (formerly known as McKinley Medical, LLC). There are no supply agreements in place with any of the suppliers. All purchases are handled pursuant to pricing agreements, which contain no material terms other than prices that are subject to change by the manufacturer.

Seasonality

Our business is not subject to seasonality.

Environmental Laws

We are required to comply with applicable federal, state and local environmental laws regulating the disposal of cleaning agents used in the process of cleaning our ambulatory infusion pumps, as well as the

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disposal of sharps and blood products used in connection with the pumps. We do not believe that compliance with such laws has a material effect on our business.

Significant Customers

We have sought to establish contracts with as many third party payor organizations as commercially practicable, in an effort to ensure that reimbursement is not a significant obstacle for providers who recommend continuous infusion therapy and wish to utilize our services. A third party payor organization is a health care payor or a group of medical services payors that contracts to provide a wide variety of healthcare services to enrolled members through participating providers such as us. A payor is any entity that pays on behalf of a member patient.

We currently have contracts with more than 230 third party payor plans that cover approximately 200 million lives. Material terms of contracts with third party payor organizations are typically a set fee or rate, or discount from billed charges for equipment provided. These contracts generally provide for a term of one year, with automatic one-year renewals, unless we or the contracted payor do not wish to renew. Our largest contracted payor is Medicare, which accounted for approximately 31% of our gross billings for ambulatory infusion pump services for the year ended December 31, 2011. Our contracts with various individual Blue Cross/Blue Shield affiliates in the aggregate accounted for approximately 21% of our gross billings for ambulatory infusion pump services for the year ended December 31, 2011. We also contract with various other third party payor organizations, commercial Medicare replacement plans, self-insured plans and numerous other insurance carriers. No individual payor, other than Medicare and the Blue Cross/Blue Shield entities, accounts for greater than approximately 6% of our ambulatory infusion pump services gross billings.

Competitors

We believe that our competition is primarily composed of regional durable medical equipment (DME) providers, hospital-owned DME providers, physician providers and home care infusion providers. An estimate of the number of competitors is not known or reasonably available, due to the wide variety in type and size of the market participants described below. We are not aware of any industry reports with respect to the competitive market described below. The description of market segments and business activities within those market segments is based on our experiences in the industry.

Regional DME Providers: Regional DME providers act as distributors for a variety of medical products. We believe regional DME provider sales forces generally consist of a relatively small number of salespeople, usually covering several states. Regional DME providers tend to carry a limited selection of infusion pumps and their salespeople generally have limited resources. Regional DME providers usually do not have 24x7 nursing services. We believe that regional DME providers have relatively few third party payor contracts, which may prevent these providers from being paid at acceptable levels and may also result in higher out-of-pocket costs for patients.

Hospital-owned DME Providers: Many hospitals have in-house DME providers to supply basic equipment. In general, however, these providers have limited capital and tend to stock a small inventory of infusion pumps. We believe that hospital-owned providers have limited ability to grow because of restricted patient populations. Growth from outside of the hospital may pose a challenge because hospitals typically will not provide referrals to competitors, instead preferring to offer patients a choice of non-hospital-affiliated DME providers.

Physician Providers: A limited number of physicians maintain an inventory of their own infusion pumps and provide them to patients for a fee. However, we believe that pump utilization in this area tends to be low and the costs associated with ongoing supplies, preventative maintenance and repairs can be relatively high. Moreover, we believe that a high percentage of DME claims by doctors are rejected by payors upon first submission, requiring a physician's staff to spend significant time and

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effort to resubmit claims and receive payment for treatment. The numerous service and technical questions from patients may present another significant cost to a physician provider's staff.

Home Care Infusion Providers: Home care infusion providers provide chemotherapy drugs and services to allow for in-home patient treatment. We believe that home care infusion treatment can be very costly and that many patients do not carry insurance coverage that covers home-based infusion services, resulting in larger out-of-pocket costs. Because home care treatments may take as long as six months, these costs can be high and can result in higher patient co-payments. We believe that home care providers may also be reluctant to offer 24x7 coverage or additional patient visits, due to capped fees.

Regulation of Our Business

Our business is subject to certain regulations. Specifically, as a Medicare supplier of DME and related supplies, we must comply with DMEPOS Supplier Standards established by the Health Care Financing Administration regulating Medicare suppliers of DME and prosthetics, orthotics and supplies (DMEPOS). The DMEPOS Supplier Standards consist of 30 requirements that must be met in order for a DMEPOS supplier to be eligible to receive payment for a Medicare-covered item. Some of the more significant DMEPOS Supplier Standards require us to (i) advise Medicare beneficiaries of their option to purchase certain equipment, (ii) honor all warranties under state law and not charge Medicare beneficiaries for the repair or replacement of equipment or for services covered under warranty, (iii) permit agents of the Centers for Medicare and Medicaid Services to conduct on-site inspections to ascertain compliance with the DMEPOS Supplier Standards, (iv) maintain liability insurance in prescribed amounts, (v) refrain from contacting Medicare beneficiaries by telephone, except in certain limited circumstances, (vi) answer questions and respond to complaints of beneficiaries regarding the supplied equipment, (vii) disclose the DMEPOS Supplier Standards to each Medicare beneficiary to whom we supply equipment, (viii) maintain a complaint resolution procedure and record certain information regarding each complaint, (ix) maintain accreditation from a CMS approved accreditation organization and (x) meet the surety bond requirements specified in 42 C.F.R. 424.57.

We are also subject to the provisions of the Health Insurance Portability and Accountability Act of 1996 (HIPAA), which are designed to protect the security and confidentiality of certain patient health information. Under HIPAA, we must provide patients access to certain records and must notify patients of our use of personal medical information and patient privacy rights. Moreover, HIPAA sets limits on how we may use individually identifiable health information and prohibits the use of patient information for marketing purposes. The adoption of the American Recovery and Reinvestment Act of 2009 (ARRA) includes a new breach notification requirement that applies to breaches of unsecured health information occurring on or after September 23, 2009.

We are subject to regulation in the various states in which we operate. We believe we are in compliance with all such regulation.

The healthcare industry is undergoing fundamental changes resulting from political, economic and regulatory influences. In the U.S., comprehensive programs are under consideration that seeks to, among other things, increase access to healthcare for the uninsured and control the escalation of healthcare expenditures within the economy. In 2010, federal legislation to reform the United States healthcare system was enacted into law. The legislation is far-reaching and is intended to expand access to health insurance coverage, improve quality and reduce costs over time. We expect the new law will impact various aspects of our business operations. However, it is unclear how the new law will impact reimbursement rates under the Medicare program. In addition, the new law imposes a 2.3 percent excise tax on medical devices scheduled to be implemented in 2013 that will apply to sales within the United States of a majority of our pump products. Many of the details of the new law will be included in new and revised regulations, which have not yet been promulgated, and require additional guidance and specificity to be provided by the Department of Health and Human Services, Department of Labor and Department of the Treasury. Accordingly, while it is too early to understand and predict the ultimate impact of the new law on our business, the legislation could have a material effect on our business, cash flows, financial condition and results of operations.

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Available Information

Our Internet address is www.infusystem.com. On this Web site, we post the following filings as soon as reasonably practicable after they are electronically filed with or furnished to the U.S. Securities and Exchange Commission (the SEC): our Annual Reports on Form 10-K; our Quarterly Reports on Form 10-Q; our Current Reports on Form 8-K; our proxy statements related to our annual stockholders' meetings; and any amendments to those reports or statements. All such filings are available on our Web site free of charge. The content on our Web site is not incorporated by reference into this Annual Report on Form 10-K unless expressly noted.

Item 1A. Risk Factors.

An investment in our securities involves a high degree of risk. You should consider carefully all of the material risks described below, together with the other information contained in this Annual Report on Form 10-K. If any of the following events occur, our business, financial condition, results of operations and cash flows may be materially adversely affected.

RISK FACTORS RELATING TO CERTAIN RECENT EVENTS

The Company is currently evaluating strategic alternatives and cannot predict the outcome of this process or the impact it may have on the Company's operations.

On February 27, 2012, we announced that we had retained Houlihan Lokey as financial advisor to assist the Company in evaluating strategic alternatives, including but not limited to, operating partnerships, joint ventures or a sale or merger of the Company. There can be no assurance that the evaluation of strategic alternatives will result in any transaction being announced or completed. The process of evaluating strategic alternatives and effecting a transaction, including a sale of the Company, may result in a diversion of management's time and resources, the inability to retain and attract key employees, and the disruption of our business operations.

We could face adverse consequences as a result of the actions of activist stockholders.

An activist stockholder group consisting of Kleinheinz Capital Partners, Meson Capital Partners, Boston Avenue Capital and certain of their affiliates (the Kleinheinz Dissident Group) is seeking to gain control of the Board of Directors of the Company. The Kleinheinz Dissident Group has circulated to stockholders a consent solicitation requesting written agent designations from our stockholders to enable them to call a special meeting of stockholders to consider the removal of our current Board of Directors without cause, and to replace the Board with individuals nominated by the Kleinheinz Dissident Group. On February 27, 2012, the Kleinheinz Dissident Group delivered documentation to the Company purporting to contain agent designations from a majority of stockholders and demanding that the Company call a special meeting. In addition, on February 27, 2012, the Kleinheinz Dissident Group delivered notice to the Company stating its intention to nominate a competing slate for election to our Board of Directors at the Company's regular 2012 annual meeting. On March 5, 2012 the Company announced that it had determined that the demand for a call of a special meeting met the Company's by-law requirement. The Company cannot predict the outcome of this matter at this time.

Our business could be materially adversely affected by the Kleinheinz Dissident Group's actions because:

responding to consent solicitations and proxy contests in other actions by activist stockholders is costly and time consuming, and may disrupt our operations and divert the attention of management and our employees;

the uncertainty and negative publicity resulting from the activities of the Kleinheinz Dissident Group could make it more difficult for us to complete our evaluation of strategic alternatives, and it can impact our ability to attract new employees, retain current employees, and attract and retain customers, suppliers and business partners.

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In addition, if the Kleinheinz Dissident Group were to be successful in obtaining control of our Board of Directors, the resulting change in control would constitute an event of default under our Credit Facility with Bank of America, N.A., and KeyBank National Association. This would allow the lenders to accelerate the maturity of all debt outstanding under that agreement. Furthermore, a change in control of the Company would cause certain restricted stock grants to vest immediately, which would result in significant compensation expense. In addition, the Company would be required to reclassify its debt as a current liability unless a waiver of such covenant violation was obtained and to reassess the recoverability of its intangible assets and deferred tax assets. Finally, the Kleinheinz Dissident Group has stated that, if successful, it intends to ask the Company to reimburse its expenses in connection with its activities.

RISK FACTORS RELATING TO OUR BUSINESS AND THE INDUSTRY IN WHICH WE OPERATE.

We are dependent on our Medicare Supplier Number.

We are required to have a Medicare Supplier Number in order to bill Medicare for services provided to Medicare patients. Furthermore, all third party and Medicaid contracts require us to have a Medicare Supplier Number. In addition, we are required to comply with Medicare Supplier Standards in order to maintain such number. If we are unable to comply with the relevant standards, we could lose our Medicare Supplier Number. The loss of such identification number for any reason would prevent us from billing Medicare for patients who rely on Medicare to pay their medical expenses and, as a result, we would experience a decrease in our revenues. Without such a number, we would be unable to continue our various third party and Medicaid contracts. A significant portion of our revenue is dependent upon our Medicare Supplier Number.

The Center for Medicare and Medicaid Services (CMS) has issued a ruling that all durable medical equipment (DME) providers must be accredited by a recognized accrediting entity by September 30, 2009. On February 17, 2009, we initially received accreditation from the Community Health Accreditation Program (CHAP) and we were recertified in February 2012, thus meeting this CMS requirement. If we lost our accredited status, our financial condition, revenues and results of operations would be materially and adversely affected.

Changes in third-party reimbursement rates may adversely impact our revenues.

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

Any change in the overall healthcare reimbursement system may adversely impact our business.

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

Our success is impacted by the availability of the chemotherapy drugs that are used in our continuous infusion pump systems.

We primarily derive our revenue from the rental of ambulatory infusion pumps to oncology patients through physicians' offices and chemotherapy clinics. A shortage in the availability of chemotherapy drugs that are used

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in the continuous infusion pump system could have a material effect on our financial condition, results of operations and cash flows.

If future clinical studies demonstrate that oral medications are as effective as or more effective than continuous infusion therapy, our business could be adversely affected.

Numerous clinical trials are currently ongoing, evaluating and comparing the therapeutic benefits of current continuous infusion-based regimens with various oral medication regimens. If these clinical trials demonstrate that oral medications provide equal or greater therapeutic benefits and/or demonstrate reduced side effects compared to prior oral medication regimens, our revenues and overall business could be materially and adversely affected. Additionally, if new oral medications are introduced to the market that are superior to existing oral therapies, physicians willingness to prescribe continuous infusion-based regimens could decline, which would adversely affect our financial condition, results of operations and cash flows.

Global financial conditions may negatively impact our business, results of operations, financial condition and/or liquidity.

The recent global financial crisis affecting the banking system and financial markets, as well as the uncertainty in global economic conditions, have resulted in a significant tightening of credit markets, a low level of liquidity in financial markets and reduced corporate profits and capital spending. As a result, our customers (i.e., patients and payors) may face issues gaining timely access to sufficient credit, which could result in an impairment of their ability to make timely payments to us. In addition, the current global financial crisis could also adversely impact our suppliers' ability to provide us with materials and components, either of which may negatively impact our financial condition, results of operations and cash flows. The financial crisis could also adversely impact our ability to access the financial markets.

Although we maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments and such losses have historically been within our expectations and the provisions established, we cannot guarantee that we will continue to experience the same loss rates that we have in the past, especially given the current turmoil of the worldwide economy.

State licensure laws for DME suppliers are subject to change. If we fail to comply with any state laws, we will be unable to operate as a DME supplier in such state and our business operations will be adversely affected.

As a DME supplier operating in all 50 states of the United States, we are subject to each state's licensure laws regulating DME suppliers. State licensure laws for DME suppliers are subject to change and we must ensure that we are continually in compliance with the laws of all 50 states. In the event that we fail to comply with any state's laws governing the licensing of DME suppliers, we will be unable to operate as a DME supplier in such state until we regain compliance. We may also be subject to certain fines and/or penalties and our business operations could be adversely affected.

Our growth strategy includes expanding into treatment for cancers other than colorectal. There can be no assurance that continuous infusion-based regimens for these other cancers will become standards of care for large numbers of patients or that we will be successful in penetrating these different markets.

An aspect of our growth strategy is to expand into the treatment of other cancers, such as head, neck and gastric. Currently, relatively small percentages of these patients are treated with regimens that include continuous infusion therapy. That population will expand only if clinical trial results for new drugs and new combinations of drugs demonstrate superior outcomes for regimens that include continuous infusion therapy relative to alternatives. No assurances can be given that these new drugs and drug combinations will be approved or will prove superior to oral medication or other treatment alternatives. In addition, no assurances can be given that we will be able to penetrate successfully any new markets that may develop in the future or manage the growth in additional resources that would be required.

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The industry in which we operate is intensely competitive and changes rapidly. If we are unable to successfully compete with our competitors, our business operations may suffer.

The drug infusion industry is highly competitive. Some of our competitors and potential competitors have significantly greater resources than we do for research and development, marketing and sales. As a result, they may be better able to compete for market share, even in areas in which our services may be superior. The industry is subject to technological changes and such changes may put our current fleet of pumps at a competitive disadvantage. If we are unable to effectively compete in our market, our financial condition, results of operations and cash flows may materially suffer.

Our industry is dependent on regulatory guidelines that affect our billing practices. If our competitors do not comply with these regulatory guidelines, our business could be adversely affected.

Aggressive competitors may not fully comply with rules pertaining to documentation required by CMS and other payors for patient billing. Competitors who do not meet the same standards of compliance that we do with regards to billing regulations can, put us at a potential competitive disadvantage. We are a participating provider with Medicare and under contract with approximately 230 additional insurance plans, all of which have very stringent guidelines. If our competitors do not comply with these regulatory guidelines, our business could be adversely affected.

We rely on independent suppliers for our products. Any delay or disruption in the supply of products, particularly our supply of electronic ambulatory pumps, may negatively impact our operations.

Our infusion pumps are obtained from outside vendors. The majority of our new pumps are electronic ambulatory infusion pumps which are supplied to us by three major suppliers: Smiths Medical, Inc.; Hospira Worldwide, Inc.; and WalkMed Infusion, LLC (formerly known as McKinley Medical, LLC). The loss or disruption of our relationships with outside vendors could subject us to substantial delays in the delivery of pumps to customers. Significant delays in the delivery of pumps could result in possible cancellation of orders and the loss of customers. Our inability to provide pumps to meet delivery schedules could have a material adverse effect on our reputation in the industry, as well as our financial condition, results of operations and cash flows.

Although we do not manufacture the products we distribute, if one of the products distributed by us proves to be defective or is misused by a health care practitioner or patient, we may be subject to liability that could adversely affect our financial condition and results of operations.

Although we do not manufacture the pumps that we distribute, a defect in the design or manufacture of a pump distributed by us, or a failure of pumps distributed by us to perform for the use specified, could have a material effect on our reputation in the industry and subject us to claims of liability for injuries and otherwise. Misuse of the pumps distributed by us by a practitioner or patient that results in injury could similarly subject us to liability. Any substantial underinsured loss could have a material effect on our financial condition, results of operations and cash flows. Furthermore, any impairment of our reputation could have a material effect on our revenues and prospects for future business.

Unexpected costs or delays in integrating acquisitions could adversely affect our financial results.

We may make acquisitions going forward. As a result, we must devote significant management attention and resources to integrating the business practices and operations. We may encounter difficulties that could harm the businesses, adversely affect our financial condition and cause our stock price to decline, including the following:

We may have difficulty or experience delays in integrating the business and operations;

We may have difficulty maintaining employee morale and retaining key managers and other employees as we take steps to combine the personnel and business cultures of separate organizations into one and to eliminate duplicate positions and functions; and

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We may have difficulty preserving important relationships with others, such as strategic partners, customers, and suppliers, who may delay or defer decisions on agreements with us, or seek to change existing agreements with us, because of the acquisition. The integration process may divert the attention of our officers and management from day-to-day operations and disrupt our business, particularly if we encounter these types of difficulties. The failure of the combined company to meet the challenges involved in the integration process could cause an interruption of or a loss of momentum in the activities of the combined company and could seriously harm our results of operations.

Even if the operations are integrated successfully, the combined company may not fully realize the expected benefits of the transaction, including the synergies, cost savings or growth opportunities, whether within the anticipated time frame, or anytime in the future.

A material weakness in internal control over financial reporting at our First Biomedical location may have an adverse impact on the Company.

As outlined under 9A Controls and Procedures in this Report, our management has identified a material weakness in the Company's internal control over financial reporting relating to limited finance staff levels that are not commensurate with the Company's increased complexity and its financial account and reporting requirements in light of the Company's continued growth. While the Company has taken steps to remediate this material weakness by implementing new procedures and controls at its corporate office, these new procedures and internal controls have not been fully implemented at our First Biomedical office location. Our management intends to initiate measures to remediate the identified material weakness at the First Biomedical office by implementing the procedures and internal controls that were implemented at the corporate office at the First Biomedical office. The continued existence of this material weakness could have a material impact on the Company, and the remediation will result in additional costs.

We intend to actively pursue opportunities for the further expansion of our business through strategic alliances, joint ventures and/or acquisitions. Future strategic alliances, joint ventures and/or acquisitions may require significant resources and/or result in significant unanticipated costs or liabilities to us.

We intend to actively pursue opportunities for the further expansion of our business through strategic alliances, joint ventures and/or acquisitions. Any future strategic alliances, joint ventures or acquisitions will depend on our ability to identify suitable partners or acquisition candidates, as the case may be, negotiate acceptable terms for such transactions and obtain financing, if necessary. We also face competition for suitable acquisition candidates which may increase our costs. Acquisitions or other investments require significant managerial attention, which may be diverted from our other operations. Any future acquisitions of businesses could also expose us to unanticipated liabilities.

If we engage in strategic acquisitions, we may experience significant costs and difficulty in assimilating operations or personnel, which could threaten our future growth.

If we make any acquisitions, we could have difficulty assimilating operations, technologies and products or integrating or retaining personnel of acquired companies. In addition, acquisitions may involve entering markets in which we have no or limited direct prior experience. The occurrence of any one or more of these factors could disrupt our ongoing business, distract our management and employees and increase our expenses. In addition, pursuing acquisition opportunities could divert our management's attention from our ongoing business operations and result in decreased operating performance. Moreover, our profitability may suffer because of acquisition-related costs or amortization of intangible assets. Furthermore, we may have to incur debt or issue equity securities in future acquisitions. The issuance of equity securities would dilute our existing stockholders.

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Covenants in our debt agreement restrict our business.

The credit agreement that governs our credit facility with Bank of America, N.A. and KeyBank National Association (Credit Facility) contains, and the agreements that govern our future indebtedness may contain, covenants that restrict our ability to and the ability of our subsidiaries to, among other things:

Change of control, as defined by the agreement governing the Credit Facility.

Create, incur, assume or suffer to exist any lien upon any of our property, assets or revenues;

Make certain investments;

Create, incur, assume or suffer to exist any indebtedness;

Merge, dissolve, liquidate, consolidate or sell all or substantially all of our assets;

Make any disposition or enter into any agreement to make any disposition; and

Declare or make, directly or indirectly, any dividend or other restricted payment, or incur any obligation (contingent or otherwise) to do so.

Healthcare changes in the United States and other countries resulting in pricing pressures could have a negative impact on our future operating results.

Initiatives sponsored by government agencies, legislative bodies and the private sector to limit the growth of healthcare costs, including price regulation and competitive pricing, are ongoing in markets where we do business. Pricing pressure has also increased in our markets due to continued consolidation among health care providers, trends toward managed care, the shift towards governments becoming the primary payers of health care expenses, and government laws and regulations relating to reimbursement and pricing generally. Reductions in reimbursement levels or coverage or other cost-containment measures could unfavorably affect our future operating results.

The impact of United States healthcare reform legislation on us remains uncertain.

In 2010, federal legislation to reform the United States healthcare system was enacted into law. The legislation is far-reaching and is intended to expand access to health insurance coverage, improve quality and reduce costs over time. We expect the new law will have a significant impact upon various aspects of our business operations. However, it is unclear how the new law will impact patient access to new technologies or reimbursement rates under the Medicare program. In addition, the new law imposes a 2.3 percent excise tax on medical devices scheduled to be implemented in 2013. Many of the details of the new law will be included in new and revised regulations, which have not yet been promulgated, and require additional guidance and specificity to be provided by the Department of Health and Human Services, Department of Labor and Department of the Treasury. Accordingly, while it is too early to understand and predict the ultimate impact of the new law on our business, the legislation could have a material effect on our business, cash flows, financial condition and results of operations.

We may be unable to maintain adequate working relationships with healthcare professionals.

We seek to maintain close working relationships with respected physicians and medical personnel in hospitals and universities who assist in product research and development. We rely on these professionals to assist us in the development of proprietary products and product improvements to complement and expand our existing product lines. If we are unable to maintain these relationships, our ability to develop, market and sell new and improved products could decrease and future operating results could be unfavorably affected.

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If we fail to comply with applicable healthcare regulations, we could face substantial penalties and our business, operations and financial condition could be adversely affected.

Certain federal and state healthcare laws and regulations pertaining to fraud and abuse and patients' rights may be applicable to our business. We may be subject to healthcare fraud and abuse regulation and patient

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privacy regulation by both the federal government and the states in which we conduct our business. The laws that may affect our ability to operate include:

The federal healthcare program Anti-Kickback Statute, which prohibits, among other things, soliciting, receiving or providing remuneration, directly or indirectly, to induce (i) the referral of an individual, for an item or service, or (ii) the purchasing or ordering of a good or service, for which payment may be made under federal healthcare programs such as the Medicare and Medicaid programs;

Federal false claims laws which prohibit, among other things, knowingly presenting, or causing to be presented, claims for payment from Medicare, Medicaid, or other third-party payors that are false or fraudulent, and which may apply to entities like us that promote medical devices, provide medical device management services and may provide coding and billing advice to customers;

The federal Health Insurance Portability and Accountability Act of 1996, or HIPAA, which prohibits executing a scheme to defraud any healthcare benefit program or making false statements relating to healthcare matters and which also imposes certain requirements relating to the privacy, security and transmission of individually identifiable health information; and

State law equivalents of each of the above federal laws, such as anti-kickback and false claims laws that may apply to items or services reimbursed by any third-party payor, including commercial insurers, and state laws governing the privacy and security of health information in certain circumstances, many of which differ in significant ways from state to state and often are not preempted by HIPAA, thus complicating compliance efforts.

Additionally, the compliance environment is changing, with more states, such as California and Massachusetts, mandating implementation of compliance programs, compliance with industry ethics codes, and spending limits, and other states, such as Vermont, Maine, and Minnesota, requiring reporting to state governments of gifts, compensation and other remuneration to physicians. Federal legislation, the Physician Payments Sunshine Act (PPSA), was signed into law on March 23, 2010. The PPSA requires manufacturers of drug, device, biologics, and medical supplies covered under Medicare, Medicaid, or State Children s Health Insurance Program (SCHIP) to report payments made to physicians on an annual basis to the department of Health and Human Services (HHS). HHS in turn will post this information on a public website. These laws all provide for penalties for non-compliance. The shifting regulatory environment, along with the requirement to comply with multiple jurisdictions with different compliance and reporting requirements, increases the possibility that a company may run afoul of one or more laws.

If our operations are found to be in violation of any of the laws described above or any other governmental regulations that apply to us, we may be subject to penalties, including civil and criminal penalties, damages, fines and the curtailment or restructuring of our operations. Any penalties, damages, fines, curtailment or restructuring of our operations could adversely affect our ability to operate our business and our financial results. Any action against us for violation of these laws, even if we successfully defend against it, could cause us to incur significant legal expenses and divert our management s attention from the operation of our business. Moreover, achieving and sustaining compliance with applicable federal and state privacy, security and fraud laws may prove costly.

We are dependent on key personnel, and the loss of any key employees or officers may have a materially adverse effect on our operations.

Our success is substantially dependent on the continued services of our executive officers and other key personnel who generally have extensive experience in our industry. Our future success also will depend in large part upon our ability to identify, attract and retain other highly qualified managerial, finance, technical and sales and marketing personnel. Competition for these individuals is intense. The loss of the services of any key employees, or our failure to attract and retain other qualified and experienced personnel on acceptable terms, could have a material effect on our business and results of operations.

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Changes in accounting standards issued by the Financial Accounting Standards Board (FASB) could adversely affect our reported revenues, profitability, and financial condition.

Our financial statements are subject to the application of accounting principles generally accepted in the United States of America (GAAP), which are periodically revised and/or expanded. The application of accounting principles is also subject to varying interpretations over time. Accordingly, we are required to adopt new or revised accounting standards or comply with revised interpretations that are issued from time to time by various parties, including accounting standard setters and those who interpret the standards, such as the FASB and the SEC, banking regulators, and our independent registered public accounting firm. Those changes could adversely affect our reported revenues, profitability, or financial condition.

RISK FACTORS RELATING SPECIFICALLY TO OUR COMMON STOCK

The market price of our common stock has been, and is likely to remain, volatile and may decline in value.

The market price of our common stock has been and is likely to continue to be volatile. Market prices for securities of healthcare services companies, including ours, have historically been volatile, and the market has from time to time experienced significant price and volume fluctuations that appear unrelated to the operating performance of particular companies. The following factors, among others, can have a significant effect on the market price of our securities:

Announcements of technological innovations, new products, or clinical studies by others;

Government regulation;

Changes in the coverage or reimbursement rates of private insurers and governmental agencies;

Announcements regarding new products or services or strategic alliances or acquisitions;

Developments in patent or other proprietary rights;

The liquidity of the market for our common stock;

Changes in health care policies in the United States or globally;

Global financial conditions; and

Comments by securities analysts and general market conditions.

The realization of any risks described in these Risk Factors could also have a negative effect on the market price of our common stock.

We do not pay dividends and this may negatively affect the price of our stock.

Under the terms of our credit agreement with Bank of America, N.A. and KeyBank National Association, we are not permitted to pay dividends on our common stock and do not anticipate paying dividends on our common stock in the foreseeable future. The future price of our common stock may be adversely impacted because we do not pay dividends.

Future sales of our common stock may depress our stock price.

The market price of our common stock could decline as a result of sales of substantial amounts of our common stock in the public market, or the perception that these sales could occur. In addition to the shares of our common stock currently available for sale in the public market, shares of our common stock sold in past private placements (which include shares held by certain members of our Board of Directors) may be sold in the public market. These factors could also make it more difficult for us to raise funds through future equity offerings.

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Certain anti-takeover provisions in our amended and restated certificate of incorporation and bylaws and the Delaware General Corporation Law (the DGCL), as well as our stockholders rights plan, may discourage, delay or prevent a change in control of our company and adversely affect the trading price of our common stock.

Our amended and restated certificate of incorporation and bylaws and the DGCL contain certain anti-takeover provisions, which may discourage, delay or prevent a change in control of our company that our stockholders may consider favorable and, as a result, adversely affect the trading price of our common stock. Our amended and restated certificate of incorporation authorizes our Board of Directors to issue up to 1.0 million shares of blank check preferred stock. Our amended and restated bylaws include provisions establishing advance notice procedures with respect to stockholder proposals and director nominations and permitting only stockholders holding at least a majority of our outstanding common stock to call a special meeting. Additionally, as a Delaware corporation, we are subject to section 203 of the DGCL, which, among other things, and subject to various exceptions, restricts certain business transactions between a corporation and a stockholder owning 15% or more of the corporation's outstanding voting stock (an interested stockholder) for a period of three years from the date the stockholder becomes an interested stockholder.

In addition, our Board of Directors has adopted a stockholder rights plan. This plan would cause the substantial dilution of the holdings of any person that attempts to acquire us without the approval of our Board of Directors.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

We do not own any real property. We lease office and warehouse space at the following locations:

| | City | State/Country |
|--|------------------|-----------------|
| | Madison Heights | Michigan |
| | New York | New York |
| | Bennington | Vermont |
| | Olathe | Kansas |
| | League City | Texas |
| | Santa Fe Springs | California |
| | Mississauga | Ontario, Canada |

We believe that such office and warehouse space is suitable and adequate for our business.

Item 3. Legal Proceedings.

We are 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 our opinion, any liability that might be incurred by us upon the resolution of these claims and lawsuits will not, in the aggregate, have a material effect on our financial condition, results of operations or cash flows.

Item 4. Mine Safety Disclosures.

Not applicable.

Table of Contents**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

Our common stock is currently traded on the NYSE Amex under the symbol INFU. On April 11, 2011, all 8.3 million outstanding publicly held warrants (issued in connection with the IPO) and 1.1 million privately held warrants expired in accordance with their terms and the Company recorded a realized gain of \$0.1 million as a result of the expiration.

Our warrants and units were previously traded on the OTC Bulletin Board under the symbols INHIU.OB and INHIW.OB, respectively. Prior to December 23, 2010, our common stock was traded on the OTC Bulletin Board under the symbol INHI.OB.

See Note 7 in the Notes to the Consolidated Financial Statements for additional explanation for the expired warrants. The following tables set forth, for the calendar quarter indicated, the quarterly high and low bid information of our common stock, units and warrants, respectively, as reported on the NYSE Amex or the OTC Bulletin Board, as applicable. The quotations listed below reflect interdealer prices, without retail markup, markdown or commission and may not necessarily represent actual transactions.

Common Stock

| Quarter ended | High | Low |
|----------------------|-------------|------------|
| December 31, 2011 | \$ 1.99 | \$ 0.90 |
| September 30, 2011 | \$ 2.16 | \$ 0.75 |
| June 30, 2011 | \$ 2.85 | \$ 2.10 |
| March 31, 2011 | \$ 3.11 | \$ 2.20 |
| December 31, 2010 | \$ 2.70 | \$ 2.10 |
| September 30, 2010 | \$ 2.70 | \$ 2.05 |
| June 30, 2010 | \$ 2.70 | \$ 2.25 |
| March 31, 2010 | \$ 2.85 | \$ 2.10 |

Units*

| Quarter ended | High | Low |
|----------------------|-------------|------------|
| December 31, 2010 | \$ 2.05 | \$ 2.05 |
| September 30, 2010 | \$ 1.50 | \$ 1.50 |
| June 30, 2010 | \$ 1.50 | \$ 1.50 |
| March 31, 2010 | \$ 2.45 | \$ 2.35 |

* On April 11, 2011, all outstanding warrants, including those contained within units, expired.

Warrants

| Quarter ended | High | Low |
|----------------------|-------------|------------|
| December 31, 2010 | \$ 0.04 | \$ 0.01 |
| September 30, 2010 | \$ 0.08 | \$ 0.02 |
| June 30, 2010 | \$ 0.10 | \$ 0.06 |
| March 31, 2010 | \$ 0.09 | \$ 0.05 |

Table of Contents**Holders of Common Equity**

As of January 26, 2012, we had approximately 400 stockholders of record of our common stock. This does not include beneficial owners of our common stock, including Cede & Co., nominee of the Depository Trust Company.

Dividends

We have not paid any dividends on our common stock to date. The payment of dividends in the future will be contingent upon our revenues and earnings, if any, capital requirements and general financial condition. Under the terms of our credit agreement with Bank of America, N.A. and KeyBank National Association, we are not permitted to pay dividends. It is the present intention of our Board of Directors to retain all earnings, if any, for use in our business operations and, accordingly, our Board of Directors does not anticipate declaring any dividends in the foreseeable future.

Equity Compensation Plan Information

The following table provides information as of December 31, 2011 with respect to compensation plans, including individual compensation arrangements, under which our equity securities are authorized for issuance (in thousands):

| Plan Category: | Number of securities to be issued upon exercise of outstanding options, warrants and rights | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) |
|--|---|---|
| Equity compensation plans approved by security holders (1) | 591 | 2,437 |
| Equity compensation plans not approved by security holders (2) | 2,075 | |
| Total | 2,666 | 2,437 |

(1) This amount includes 0.6 million shares of common stock issuable upon the vesting of certain time restricted stock awards (the Restricted Stock Awards) and less than 0.1 million shares of common stock issuable upon the exercise of a vested stock option award.

(2) This amount includes 2.1 million shares of common stock issuable upon the vesting of certain restricted stock awards made outside of the Plan during the year ended December 31, 2010, including 2.0 million shares underlying a share incentive award granted to our Chief Executive Officer.

Stock Performance Graph

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

Recent Sales of Unregistered Securities

None.

Repurchases of Equity Securities

As previously announced, in October 2010, our Board of Directors has authorized a share repurchase program of up to \$2.0 million of our outstanding common shares. The repurchase program will be funded by our available cash balance.

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Stock repurchases may be made through open market transactions, negotiated purchases or otherwise, at times and in such amounts as our management deems to be appropriate. The timing and actual number of shares repurchased will depend on a variety of factors, including price, financing and regulatory requirements, as well as other market conditions. The program does not require us to repurchase any specific number of shares or to complete the program within a specific period of time.

The following table provides information about our purchases of common stock during years ended December 31, 2011 and 2010, respectively (in thousands, except Average Price per Share):

| <i>(period)</i> | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs |
|---|----------------------------------|------------------------------|--|--|
| January 1, 2011 – March 31, 2011 | 78 | \$ 2.77 | 78 | \$ 1,671 |
| April 1, 2011 – June 30, 2011 | 9 | 2.20 | 9 | 1,642 |
| July 1, 2011 – September 30, 2011 | 65 | 1.46 | 65 | 1,547 |
| October 1, 2011 – December 31, 2011 | | | | 1,547 |
| Total for 2011 | 152 | \$ 2.18 | 152 | \$ 1,547 |
| October 1, 2010 – December 31, 2010 | 46 | 2.46 | 46 | 1,887 |
| Total for fourth quarter of 2010 | 46 | \$ 2.46 | 46 | \$ 1,887 |

Item 6. Selected Financial Data.

InFuSystem Holdings, Inc. and Subsidiaries

The following tables set forth our selected consolidated financial data for 2007 through 2011. You should read the financial data presented below together with our consolidated financial statements included elsewhere in this report, and information presented under Management's Discussion and Analysis of Financial Condition and Results of Operations. We have derived the statement of operations data for the years ended December 31, 2011, 2010 and 2009 and the balance sheet data as of December 31, 2011 and 2010 from our audited consolidated financial statements, which are included elsewhere in this report. We have derived the statement of operations data for the years ended December 31, 2008 and 2007 and the balance sheet data as of December 31, 2009, 2008 and 2007 from audited consolidated financial statements which are not included in this report. On October 25, 2007, we completed the acquisition of InFuSystem, Inc., and its results of operations are included in the results for the year ended December 31, 2007 from October 26, 2007 through December 31, 2007.

Statement of Operations Data (1)

| <i>(in thousands, except per share data)</i> | December 31, 2011 | December 31, 2010 | December 31, 2009 | December 31, 2008 | December 31, 2007 |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| Net revenues | \$ 54,637 | \$ 47,229 | \$ 38,964 | \$ 35,415 | \$ 6,582 |
| Total operating expenses | (120,993) | (48,167) | (33,636) | (30,629) | (8,079) |
| Total other (loss) income | (2,221) | (2,285) | (3,577) | 6,080 | (189) |
| Income benefit (expense) | 23,134 | 1,371 | (977) | (907) | (1,110) |
| Net (loss) income | (45,443) | (1,852) | 774 | 9,959 | (2,796) |
| Net (loss) income per share – basic | \$ (2.16) | \$ (0.09) | \$ 0.04 | \$ 0.56 | \$ (0.15) |
| Net (loss) income per share – diluted | \$ (2.16) | \$ (0.09) | \$ 0.04 | \$ 0.53 | \$ (0.15) |

Table of Contents**Balance Sheet Data (at period end) (1)**

| <i>(in thousands)</i> | December 31, 2011 | December 31, 2010 | December 31, 2009 | December 31, 2008 | December 31, 2007 |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|
| Total assets | \$ 76,263 | \$ 130,364 | \$ 114,690 | \$ 116,220 | \$ 116,426 |
| Long-term debt, including current maturities | 29,127 | 32,197 | 24,141 | 30,669 | 32,294 |
| Stockholders' equity | 40,165 | 85,143 | 81,465 | 80,073 | 68,759 |

- (1) On October 25, 2007, we completed our acquisition of 100% of the issued and outstanding capital stock of InfuSystem from I-Flow pursuant to the terms of the Stock Purchase Agreement. InfuSystem's results of operations are included in our Consolidated Statements of Operations from the date of the acquisition. For more information, see Note 4 Acquisitions to our Consolidated Financial Statements which are included in this Annual Report on Form 10-K.

Predecessor InfuSystem

The statement of operations data for the period from January 1, 2007 to October 25, 2007 was derived from the audited financial statements of Predecessor InfuSystem, which are not included in this report.

Statement of Operations Data

| | January 1, 2007 to October 25, 2007 |
|--------------------------|--|
| Net revenues | \$ 25,001 |
| Cost of revenues | 6,702 |
| Total operating expenses | 15,673 |
| Income tax expense | 1,086 |
| Net income | 1,777 |

Item 7. 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 approximately 1,400 oncology clinics 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

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consideration of \$17.4 million, which included \$16.6 million in cash payments and a note payable to the seller of \$0.8 million. First Biomedical's results of operations are included in our consolidated statements of operations from the acquisition date.

As a result of the acquisition of First Biomedical, we sell, rent, service and repair new and pre-owned infusion pumps and other medical equipment. We also sell a variety of primary and secondary tubing, cassettes, catheters and other disposable items that are utilized with infusion pumps. With locations in Kansas, California and Toronto, we are now a leading provider to alternate site healthcare facilities and hospitals in the United States and Canada.

InfuSystem Holdings, Inc. Results of Operations for the Year ended December 31, 2011 compared to the Year ended December 31, 2010

Revenues

Our revenue for the year ended December 31, 2011 was \$54.6 million, a 16% increase compared to \$47.2 million for the year ended December 31, 2010. The increase in revenues is primarily related to revenues generated by a full year of operations of First Biomedical, acquired during 2010, obtaining business at new customer facilities, as well as deeper penetration into existing customer facilities.

Gross Profit

Gross profit for the year ended December 31, 2011 was \$35.4 million, an increase of 5% compared to \$33.5 million in the prior year. It represented 65% of revenues in the current year compared to 71% in the prior year. The decrease in the gross margin percentage was primarily related to our requested change to an agreement with one of our pump manufacturers that transferred our ownership of all pumps and corresponding current rental customers to the pump manufacturer in exchange for a share of future revenues, which resulted in a \$1.2 million non-cash write-off of the transferred pumps. There was also an increase as an overall percentage of revenue in pump sales and services, which generally have a lower gross profit margin, as compared to third party billings.

Provision for Doubtful Accounts

Provision for doubtful accounts for the year ended December 31, 2011 was \$4.1 million, compared to \$4.5 million for the year ended December 31, 2010. It represented 8% of revenues in the current year compared to 10% in the prior year. The decrease, as a percentage of revenues is primarily the result of increased collection efforts and monitoring along with a change in patient and customer base due to a full year of operations with First Biomedical in 2011.

Amortization of Intangible Assets

Amortization of intangible assets for the year ended December 31, 2011 was \$2.7 million, an 18% increase compared to \$2.3 million for the year ended December 31, 2010. The increase is primarily related to additional intangible assets associated with the acquisition of First Biomedical, 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. 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.

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As of September 30, 2011, based on a significant decline in our market capitalization, we concluded that there was an additional 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.

Based on the impairment analyses as described above, the following table outlines the impairment charges by asset category (in thousands) for the year ended December 31, 2011:

| | Asset |
|---------------------------------|------------------|
| Goodwill | \$ 64,092 |
| Trade names | 3,500 |
| Total impairment charges | \$ 67,592 |

Selling and Marketing Expenses

For the year ended December 31, 2011, our selling and marketing expenses were \$9.4 million compared to \$7.1 million for the year ended December 31, 2010. 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. The increase in expenses is primarily related to expenses incurred through a full year of operations of the acquired First Biomedical and increases in sales force. As compared to the prior year, these expenses increased from 15% to 17% of revenues for the year ended December 31, 2010.

General and Administrative Expenses

During the year ended December 31, 2011, our general and administrative expenses were \$18.0 million, compared to \$20.6 million for the year ended December 31, 2010. The decrease is primarily related to a decrease in share-based compensation and costs associated with the acquisition of First Biomedical. 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. General and administrative expenses have decreased from 44% to 33% of revenues for the year ended December 31, 2011 compared to the same period in the prior year.

Other Income and Expenses

During the year ended December 31, 2011, we recorded a gain on derivatives of \$0.1 million, compared to a gain of \$0.2 million during the year ended December 31, 2010. Included in the year ended December 31, 2011 was the gain from the expiration on April 11, 2011 of all remaining outstanding warrants to purchase common stock issued in connection with the IPO, whereas the year ended December 31, 2010 gain included an unrealized gain from the change in fair value of our warrants, a realized loss recorded in connection with the 2010 exchange of common stock for warrants, and a realized gain on the termination of an interest rate swap. For more information, 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 7 to our Consolidated Financial Statements included in this Annual Report on Form 10-K.

During the year ended December 31, 2011, we recorded interest expense of \$2.2 million, compared to \$3.4 million for the year ended December 31, 2010. These amounts consist primarily of interest paid on our term

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loans, cash payments associated with our terminated and new interest rate swaps, amortization of deferred debt issuance costs and interest expense on capital leases. The decrease is primarily related to a lower interest rate on principal balances of the term loan, a lower swap rate as well as a one-time expensing of all of the remaining I-Flow deferred debt issuance costs during the year ended December 31, 2010.

During the year ended December 31, 2011, we recorded an income tax benefit of \$23.1 million, compared to a benefit of \$1.4 million for the year ended December 31, 2010. The effective tax rate for the year ended December 31, 2011 was 33.63%, compared to 47.21% for the year ended December 31, 2010. The effective tax rate of 33.95% for the year ended December 31, 2011, is consistent with the statutory rate of 34.00%. Refer to the discussion under *Summary of Significant Accounting Policies* *Income Taxes* included in Note 2 and *Income Taxes* included in Note 9 to our Consolidated Financial Statements included in this Annual Report on Form 10-K.

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, 2010 through December 31, 2011.

InfuSystem Holdings, Inc. Results of Operations for the Year ended December 31, 2010 compared to the Year ended December 31, 2009

Revenues

Our revenue for the year ended December 31, 2010 was \$47.2 million, a 21% increase compared to \$39.0 million for the year ended December 31, 2009. The increase in revenues is primarily related to revenues generated by recently acquired First Biomedical, obtaining business at new customer facilities, as well as deeper penetration into existing customer facilities.

Gross Profit

Gross profit for the year ended December 31, 2010 was \$33.5 million, an increase of 17% compared to \$28.6 million in the prior year. It represented 71% of revenues in the current year compared to 73% in the prior year. The decrease, as a percentage of revenues, is primarily related to higher pump depreciation and disposal costs, a higher mix of pump sales and services, including First Biomedical, as compared to third party billings, partially offset by lower supplies costs.

Provision for Doubtful Accounts

Provision for doubtful accounts for the year ended December 31, 2010 was \$4.5 million, compared to \$4.0 million for the year ended December 31, 2009. The provision for doubtful accounts remained consistent at 10% of revenues for the year ended December 31, 2010, compared to the year ended December 31, 2009.

Amortization of Intangible Assets

Amortization of intangible assets for the year ended December 31, 2010 was \$2.3 million, a 28% increase compared to \$1.8 million for the year ended December 31, 2009. The increase is primarily related to additional intangible assets associated with the acquisition of First Biomedical, as well as amortization of new software.

Selling and Marketing Expenses

For the year ended December 31, 2010, our selling and marketing expenses were \$7.1 million compared to \$5.3 million for the year ended December 31, 2009. Selling and marketing expenses during these periods

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consisted of sales salaries, commissions and associated fringe benefit and payroll-related items, marketing, share-based compensation, travel and entertainment and other miscellaneous expenses. The increase in expenses is primarily related to expenses incurred by recently acquired First Biomedical. As compared to the prior year, these expenses increased from 13% to 15% of revenues for the year ended December 31, 2010.

General and Administrative Expenses

During the year ended December 31, 2010, our general and administrative expenses were \$20.6 million, compared to \$12.2 million for the year ended December 31, 2009. The increase is primarily related to an increase in share-based compensation, expenses incurred at recently acquired First Biomedical, and costs associated with the acquisition of First Biomedical. 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. General and administrative expenses have increased from 31% to 44% of revenues for the year ended December 31, 2010 compared to the same period in the prior year. The increase as a percentage of revenue is primarily related to an increase in share-based compensation expense.

Other Income and Expenses

During the year ended December 31, 2010, we recorded a gain on derivatives of \$0.2 million, compared to a loss of \$0.1 million during the year ended December 31, 2009. Included in the year ended December 31, 2010 gain was an unrealized gain from the change in fair value of our warrants, a realized loss recorded in connection with an exchange of common stock for warrants, and a realized gain on the termination of an interest rate swap, whereas the year ended December 31, 2009 loss included an unrealized loss from the change in the fair value of our warrants and an unrealized gain from the change in the fair value of the interest rate swap that was in place at the time. For more information, 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 7 to our Consolidated Financial Statements included in this Annual Report on Form 10-K.

During the year ended December 31, 2010, we recorded interest expense of \$3.4 million, compared to \$3.5 million for the year ended December 31, 2009. These amounts consist primarily of interest paid on our term loans, cash payments associated with our terminated and new interest rate swaps, amortization of deferred debt issuance costs and interest expense on capital leases. The decrease is primarily related to a lower interest rate of the new term loan as well as a lower swap rate. These were offset by a one-time expensing of all of the remaining I-Flow deferred debt issuance costs and an increase in capital leases.

During the year ended December 31, 2010, we recorded income tax benefit of \$1.4 million, compared to an expense of \$1.0 million for the year ended December 31, 2009. The effective tax rate for the year ended December 31, 2010 was 47.21%, compared to 55.43% for the year ended December 31, 2009. The effective tax rate of 47.21% for the year ended December 31, 2010, as compared to the statutory rate of 34%, is primarily driven by permanent items including the current change in the valuation allowance on net deferred tax assets, the change in the net deferred tax liability on indefinite-lived goodwill and various state tax expenses. Refer to the discussion under *Summary of Significant Accounting Policies Income Taxes* included in Note 2 and *Income Taxes* included in Note 9 to our Consolidated Financial Statements included in this Annual Report on Form 10-K.

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 December 31, 2010.

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Liquidity and Capital Resources

As of December 31, 2011, we had cash and cash equivalents of \$0.8 million compared to \$5.0 million at December 31, 2010. The decrease in cash was primarily related to cash used for the acquisition of new pumps and repayment of long-term debt, partially offset by positive cash flows from operating activities.

Cash provided by operating activities for the year ended December 31, 2011 was \$7.2 million, compared to cash provided by operating activities of \$10.8 million for the year ended December 31, 2010. An increase in inventory, to satisfy the increased sales, accounts for \$1.5 million of the \$3.6 million decrease. Accounts receivable increased by \$0.7 million which was consistent with the increase in sales. As identified above we recorded a non-cash asset impairment expense of approximately \$67.6 million during the year ended December 31, 2011. This was offset in part by a change in deferred tax benefits of approximately \$23.4 million, as result of the impairment expense. These items have no impact on cash, but are listed as reconciling items in the consolidated statement of cash flows.

Cash used in investing activities for the year ended December 31, 2011 was \$5.6 million, compared to \$19.1 million for the year ended December 31, 2010. The decrease is primarily related to cash paid for the acquisition of First Biomedical, partially offset by a \$1.7 million increase in purchases of infusion pumps.

Cash used in financing activities for the year ended December 31, 2011 was \$5.8 million, compared to cash provided by financing activities of \$5.5 million for the year ended December 31, 2010. Cash used in financing activities for the year ended December 31, 2011 was \$5.8 million compared to cash provided by financing activities of \$5.5 million for the year ended December 31, 2010. The change was primarily related to the increase in additional borrowings of \$10.3 million as a result of the refinancing in 2010. The remaining change was due to an increase in cash payments on long-term debt of \$1.6 million and capital leases of \$0.6 million. These were offset by a decrease in cash paid for debt issuance costs of \$0.8 million and an increase in cash paid for treasury shares of \$0.3 million.

Management believes the current funds, together with expected cash flows from ongoing operations as well as the \$4.9 million available as of December 31, 2011 on the revolving credit facility from Bank of America referred to below, are sufficient to fund our current operations.

On June 15, 2010, we 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 our choice of LIBOR plus 4.5%, or the Bank of America prime rate plus 3.5%. As of December 31, 2011, interest was payable at LIBOR plus 4.5%, which equaled approximately 4.78%.

Proceeds from the new term loan were used to repay the outstanding balance of our debt held by Kimberly-Clark (I-Flow), as well as contribute to the acquisition consideration for First Biomedical. As of December 31, 2011 and 2010, the Company had a letter of credit in the amount of \$0.1 million outstanding, leaving \$4.9 million available on its revolving credit facility.

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 December 31, 2011, we were in compliance with all such covenants and are projecting to remain in compliance for the year ended December 31, 2012.

We are required to satisfy certain financial covenants on a quarterly and annual basis comprised of an interest coverage ratio and leverage ratio for the duration of the Credit Facility.

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In connection with the Credit Facility, we have the following covenant obligations for the duration of the facility:

- a) The fixed charge coverage ratio is calculated in accordance with the agreement governing the Credit Facility and has a minimum ratio at December 31, 2011 of 1.25:1. The required ratio for the remainder of the facility duration is 1.25:1.
- b) The leverage ratio is calculated in accordance with the agreement governing the Credit Facility and has a maximum ratio at December 31, 2011 of 2.5:1. The required ratio varies quarterly for the remainder of the facility duration, from 2.5:1 to 1.75:1.
- c) The Credit Facility includes an annual limitation on capital expenditures in accordance with the agreement governing the Credit Facility that were \$7.5 million for the year ended December 31, 2011. The limitation varies annually for the remainder of the facility duration from \$7.5 million to \$8.8 million.

Contractual Obligations

As of December 31, 2011, future payments related to contractual obligations are as follows (in thousands):

| | Payment Due by Period (1) | | | | Total |
|-----------------------------|---------------------------|-----------------|-----------------|----------------------|-----------|
| | Less than 1 Year | 1 to 3 Years | 3 to 5 Years | More than 5 Years | |
| Debt obligations | \$ 4,695 | \$ 19,500 | \$ | \$ | \$ 24,195 |
| Capital Lease Obligations | 1,881 | 3,051 | | | 4,932 |
| Operating Lease Obligations | 605 | 1,046 | 48 | | 1,699 |
| Total | \$ 7,181 | \$ 23,597 | \$ 48 | \$ | \$ 30,826 |

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

Included in the operating lease obligations are future minimum lease payments as of December 31, 2011 under various lease agreements we have entered into for office space.

Contingent Liabilities

We do not have any contingent liabilities.

Off-Balance Sheet Arrangements

We do not have any material 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.

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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

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. 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. We perform an analysis to estimate sales returns and record an allowance. This estimate is based on historical sales returns.

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 31% of our gross billings for the year ended December 31, 2011. We have contracts with various individual Blue Cross/Blue Shield affiliates which in the aggregate accounted for approximately 21% of our gross billings for the year ended December 31, 2011. No individual payor, other than Medicare and the Blue Cross/Blue Shield entities accounts for greater than 6% of our gross billings.

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.

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Following is an analysis of the allowance for doubtful accounts for InfuSystem Holdings, Inc. for the years ended December 31, 2011, 2010 and 2009 (in thousands):

| | | Balance at beginning of Period | Acquired in acquisition | Charged to costs and expenses | Deductions (1) | Balance at end of Period |
|---------------------------------|------|--------------------------------------|----------------------------|-------------------------------------|----------------|--------------------------------|
| Allowance for doubtful accounts | 2011 | \$ 1,796 | \$ | \$ 4,099 | \$ (4,122) | \$ 1,773 |
| Allowance for doubtful accounts | 2010 | \$ 1,842 | \$ 37 | \$ 4,515 | \$ (4,598) | \$ 1,796 |
| Allowance for doubtful accounts | 2009 | \$ 1,552 | \$ | \$ 4,006 | \$ (3,716) | \$ 1,842 |

(1) Deductions represent the write-off of uncollectible account receivable balances.

Warrants and Derivative Financial Instruments

On April 18, 2006, we consummated our initial public offering (IPO) of 16.7 million units. Each unit consisted 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 0.2 million units (the Overallotment 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.

The accounting guidance 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.

On February 16, 2010, we announced an Offer to Exchange common stock for outstanding warrants. At the time, we had 35.1 million outstanding warrants. The exchange offer expired on March 17, 2010. Holders of our 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. The lock-up provision expired in September 2010. Based on the final count, 25.6 million Warrants were properly tendered; 24.8 million were tendered for shares of Common Stock subject to a lock-up, and 0.8 million were tendered for unrestricted shares of Common Stock. Under the terms of the Exchange Offer, we issued an aggregate 1.0 million shares of Common Stock in exchange for the tendered Warrants. After the exchange, there were 8.3 million publicly held warrants and 1.1 million privately held warrants outstanding.

The 8.3 million 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 \$0.1 million, which is included on the gain in derivatives line item on the income statement, during the year ended December 31, 2011.

Cash Flow Hedge

We are 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, we enter into interest rate swaps. On July 20, 2010, we entered into a single interest rate swap and designated the swap as a cash flow hedge. The fair value of the swap is presented 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.

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Income Taxes

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 9 in the Notes to the Consolidated Financial Statements.

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.

We apply a fair value based impairment test for our single reporting unit 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 additional interim goodwill and indefinite lived intangibles impairment analysis. 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 6 in the Notes to the Consolidated Financial Statements.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk.

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

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Item 8. Financial Statements and Supplementary Data.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Infusystem Holdings, Inc.

Madison Heights, Michigan

We have audited the accompanying consolidated balance sheets of Infusystem Holdings, Inc. and subsidiaries (the Company) as of December 31, 2011 and 2010, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Infusystem Holdings, Inc. and subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements for the year ended December 31, 2011, have been prepared assuming that the Company will continue as a going concern. As discussed in Note 3, the possibility of a change in the majority representation of the Board and consequent event of default under the Credit Facility, which would allow the lenders to cause the debt of \$24.0 million to become immediately due and payable, raises substantial doubt about the Company's ability to continue as a going concern. Management's plans concerning these matters are also described in Note 3. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Deloitte & Touche LLP

Detroit, Michigan

March 16, 2012

Table of Contents**INFUSYSTEM HOLDINGS, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

| <i>(in thousands, except share data)</i> | December 31, 2011 | December 31, 2010 |
|---|------------------------------|------------------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 799 | \$ 5,014 |
| Accounts receivable, less allowance for doubtful accounts of \$1,773 and \$1,796 at December 31, 2011 and December 31, 2010, respectively | 7,350 | 6,679 |
| Accounts receivable - related party | 98 | |
| Inventory | 3,217 | 1,699 |
| Prepaid expenses and other current assets | 934 | 750 |
| Deferred income taxes | 682 | 1,147 |
| Total Current Assets | 13,080 | 15,289 |
| Property & equipment, net | 15,764 | 16,672 |
| Deferred debt issuance costs, net | 421 | 658 |
| Goodwill | | 64,092 |
| Intangible assets, net | 28,221 | 33,252 |
| Deferred income taxes | 18,187 | |
| Other assets | 590 | 401 |
| Total Assets | \$ 76,263 | \$ 130,364 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Accounts payable | \$ 4,004 | \$ 2,016 |
| Accounts payable - related party | 59 | |
| Other current liabilities | 2,235 | 4,631 |
| Derivative liabilities | 258 | 183 |
| Current portion of long-term debt | 6,576 | 5,551 |
| Total Current Liabilities | 13,132 | 12,381 |
| Long-term debt, net of current portion | 22,551 | 26,646 |
| Deferred income taxes | | 5,788 |
| Other liabilities | 415 | 406 |
| Total Liabilities | \$ 36,098 | \$ 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 21,330,235 and 21,163,337, respectively; outstanding 21,330,235 and 21,117,516, respectively | 2 | 2 |
| Additional paid-in capital | 87,541 | 87,004 |
| Accumulated other comprehensive loss | (136) | (64) |
| Retained deficit | (47,242) | (1,799) |
| Total Stockholders' Equity | 40,165 | 85,143 |
| Total Liabilities and Stockholders' Equity | \$ 76,263 | \$ 130,364 |

See accompanying notes to consolidated financial statements

Table of Contents**INFUSYSTEM HOLDINGS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS**

| <i>(in thousands, except share data)</i> | Year Ended December 31, 2011 | Year Ended December 31, 2010 | Year Ended December 31, 2009 |
|---|------------------------------------|------------------------------------|------------------------------------|
| Net revenues | | | |
| Rentals | \$ 46,795 | \$ 43,384 | \$ 38,606 |
| Product sales | 7,842 | 3,845 | 358 |
| Net revenues | 54,637 | 47,229 | 38,964 |
| Cost of revenues: | | | |
| Cost of revenues Product, service and supply costs | 9,128 | 7,730 | 6,200 |
| Cost of revenues Pump depreciation, sales and disposals | 10,154 | 5,954 | 4,127 |
| Gross profit | 35,355 | 33,545 | 28,637 |
| Selling, general and administrative expenses: | | | |
| Provision for doubtful accounts | 4,099 | 4,515 | 4,006 |
| Amortization of intangibles | 2,662 | 2,259 | 1,827 |
| Asset impairment charges | 67,592 | | |
| Selling and marketing | 9,371 | 7,087 | 5,258 |
| General and administrative | 17,987 | 20,622 | 12,218 |
| Total sales, general and administrative: | 101,711 | 34,483 | 23,309 |
| Operating (loss) income | (66,356) | (938) | 5,328 |
| Other income (loss): | | | |
| Gain (loss) on derivatives | 83 | 207 | (78) |
| Interest expense | (2,193) | (3,352) | (3,499) |
| Gain on extinguishment of long term debt | | 1,118 | |
| Other expense | (111) | (258) | |
| Total other loss | (2,221) | (2,285) | (3,577) |
| (Loss) income before income taxes | (68,577) | (3,223) | 1,751 |
| Income tax benefit (expense) | 23,134 | 1,371 | (977) |
| Net (loss) income | \$ (45,443) | \$ (1,852) | \$ 774 |
| Net (loss) income per share: | | | |
| Basic | \$ (2.16) | \$ (0.09) | \$ 0.04 |
| Diluted | \$ (2.16) | \$ (0.09) | \$ 0.04 |
| Weighted average shares outstanding: | | | |
| Basic | 21,074,093 | 19,721,378 | 18,609,797 |
| Diluted | 21,074,093 | 19,721,378 | 18,931,356 |

See accompanying notes to consolidated financial statements

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INFUSYSTEM HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF
STOCKHOLDERS EQUITY

| <i>(in thousands, except share data)</i> | Common Stock | | Additional Paid in Capital | Retained (Deficit) Earnings | Accumulated Other Comprehensive Loss | Treasury Stock | | Total Stockholders Equity |
|---|---------------|---------------------------------|----------------------------------|-----------------------------------|---|----------------|-----------|---------------------------------|
| | Shares | Par Value \$0.0001 Amount | | | | Shares | Amount | |
| Balances at January 1, 2009 | 18,513 | 2 | \$ 80,792 | \$ (721) | \$ | (1,234) | \$ | \$ 80,073 |
| Gross restricted shares issued upon vesting | 265 | | | | | | | |
| Common stock issued to employees | 8 | | | | | | | |
| Amortization of stock-based compensation expense | | | 753 | | | | | 753 |
| Issuance of treasury stock for services | | | | | | 1,234 | | |
| Common stock repurchased to satisfy minimum statutory withholding on stock-based compensation | (52) | | (135) | | | | | (135) |
| Net income | | | | 774 | | | | 774 |
| Balances at December 31, 2009 | 18,734 | \$ 2 | \$ 81,410 | \$ 53 | \$ | \$ | \$ | \$ 81,465 |
| Gross restricted shares issued upon vesting | 1,476 | | | | | | | |
| Common stock issued to employees | 5 | | | | | | | |
| Stock issued from warrant exchange | 1,015 | | 2,015 | | | | | 2,015 |
| Amortization of stock-based compensation expense | | | 3,860 | | | | | 3,860 |
| Treasury shares repurchased | | | (114) | | | (46) | | (114) |
| Common stock repurchased to satisfy minimum statutory withholding on stock-based compensation | (67) | | (167) | | | | | (167) |
| Net loss | | | | (1,852) | | | | (1,852) |
| Unrealized loss on interest rate swap | | | | | | (64) | | (64) |
| Total comprehensive loss | | | | | | | | (1,916) |
| Balances at December 31, 2010 | 21,163 | \$ 2 | \$ 87,004 | \$ (1,799) | \$ (64) | (46) | \$ | \$ 85,143 |
| Gross restricted shares issued upon vesting | 219 | | | | | | | |
| Common stock issued to employees | | | | | | | | |
| Amortization of stock-based compensation expense | | | 970 | | | | | 970 |
| Treasury shares repurchased | | | (331) | | | (152) | | (331) |
| Common stock repurchased to satisfy minimum statutory withholding on stock-based compensation | (52) | | (102) | | | | | (102) |
| Net loss | | | | (45,443) | | | | (45,443) |
| Unrealized loss on interest rate swap | | | | | | (72) | | (72) |
| Total comprehensive loss | | | | | | | | (45,515) |
| Balances at December 31, 2011 | 21,330 | 2 | \$ 87,541 | \$ (47,242) | \$ (136) | (198) | \$ | \$ 40,165 |

Components of accumulated other comprehensive loss consisted of the following at December 31, 2011:

Unrealized loss on interest rate swap

\$ (136)

See accompanying notes to consolidated financial statements

Table of Contents**INFUSYSTEM HOLDINGS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

| <i>(in thousands)</i> | Year Ended December 31, 2011 | Year Ended December 31, 2010 | Year Ended December 31, 2009 |
|---|------------------------------------|------------------------------------|------------------------------------|
| OPERATING ACTIVITIES | | | |
| Net (loss) income | \$ (45,443) | \$ (1,852) | \$ 774 |
| Adjustments to reconcile net (loss) income to net cash provided by operating activities: | | | |
| (Gain) loss on derivative liabilities | (83) | (207) | 78 |
| Gain on extinguishment of long-term debt | | (1,118) | |
| Provision for doubtful accounts | 4,099 | 4,515 | 4,006 |
| Depreciation | 6,386 | 5,357 | 4,122 |
| Net book value of pumps sold from fixed assets | 4,227 | 994 | 342 |
| Amortization of intangible assets | 2,662 | 2,259 | 1,827 |
| Asset impairment charges | 67,592 | | |
| Amortization of deferred debt issuance costs | 238 | 980 | 495 |
| Stock-based compensation | 1,185 | 3,860 | 753 |
| Deferred income taxes | (23,423) | (1,236) | 2,254 |
| Changes in assets (Increase)/Decrease, exclusive of effects of acquisitions: | | | |
| Accounts receivable, net of provision | (4,868) | (3,948) | (5,355) |
| Other current assets | (1,702) | (506) | (253) |
| Other assets | 273 | (173) | (207) |
| Changes in liabilities Increase/(Decrease), exclusive of effects of acquisitions: | | | |
| Accounts payable and other liabilities | (3,971) | 2,252 | 872 |
| Derivative liabilities from termination of interest rate swap | | (365) | |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 7,172 | 10,812 | 9,708 |
| INVESTING ACTIVITIES | | | |
| Capital expenditures | (4,155) | (2,444) | (4,612) |
| Acquisition of intangible assets | (1,398) | | |