

InfuSystem Holdings, Inc
Form 10-Q
August 12, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended June 30, 2009**

or

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

Commission File Number: 000-51902

INFUSYSTEM HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

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Delaware
(State or Other Jurisdiction of

20-3341405
(I.R.S. Employer

Incorporation or Organization)

31700 Research Park Drive

Identification No.)

Madison Heights, Michigan 48071

(Address of Principal Executive Offices including zip code)

(248) 291-1210

(Registrant's Telephone Number, Include Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer (Do not check if smaller reporting company)

Smaller reporting company

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

As of August 1, 2009, 18,635,671 shares of the registrant's common stock, par value \$0.0001 per share, were outstanding.

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INFUSYSTEM HOLDINGS, INC. AND SUBSIDIARY

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Table of Contents**Item 1. Financial Statements****INFUSYSTEM HOLDINGS, INC. AND SUBSIDIARY****(formerly HAPC, INC.)****CONSOLIDATED BALANCE SHEETS**

<i>(in thousands, except share data)</i>	June 30, 2009 (Unaudited)	December 31, 2008
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 5,364	\$ 11,513
Accounts receivable, less allowance for doubtful accounts of \$1,564 and \$1,552 at June 30, 2009 and December 31, 2008, respectively; June 30, 2009 and December 31, 2008 include \$8 and \$72 due from I-Flow, respectively	4,977	4,168
Accounts receivable federal income taxes	1,317	
Inventory	774	391
Prepaid expenses and other current assets	804	676
Total Current Assets	13,236	16,748
Property & equipment, net	12,445	10,878
Deferred debt issuance costs, net	1,011	1,276
Goodwill	56,580	56,580
Intangible assets, net	29,825	30,738
Other assets	18	
Total Assets	\$ 113,115	\$ 116,220
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	\$ 2,101	\$ 1,012
Deferred income taxes	54	55
Other current liabilities	1,495	939
Derivative liabilities	3,229	2,592
Current portion of long-term debt; June 30, 2009 and December 31, 2008 include \$3,270 and \$8,565 payable to I-Flow, respectively	3,353	8,644
Total Current Liabilities	10,232	13,242
Long-term debt, net of current portion; June 30, 2009 and December 31, 2008 include \$20,050 and \$21,685 payable to I-Flow, respectively	20,344	22,025
Deferred income taxes	1,668	880
Total Liabilities	\$ 32,244	\$ 36,147
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 18,635,671 and 18,512,671, respectively; outstanding 18,635,671 and 17,278,626, respectively	2	2
Additional paid-in capital	81,337	80,792
Retained deficit	(468)	(721)
Total Stockholders Equity	80,871	80,073

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Total Liabilities and Stockholders Equity	\$ 113,115	\$ 116,220
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See accompanying notes to consolidated financial statements.

Table of Contents**INFUSYSTEM HOLDINGS, INC. AND SUBSIDIARY****(formerly HAPC, INC.)****CONSOLIDATED STATEMENTS OF OPERATIONS****(UNAUDITED)**

<i>(in thousands, except per share data)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Net revenues	\$ 9,173	\$ 8,835	\$ 18,400	17,365
Operating expenses:				
Cost of Revenues Product and supply costs	1,384	1,377	2,654	2,842
Cost of Revenues Pump depreciation	894	967	1,734	1,930
Provision for doubtful accounts	875	914	1,844	1,775
Amortization of intangibles	457	457	914	914
Selling and marketing	1,419	1,193	2,739	2,270
General and administrative	2,800	2,848	5,910	6,034
Total Operating Expenses	7,829	7,756	15,795	15,765
Operating income	1,344	1,079	2,605	1,600
Other income (loss):				
Gain (loss) on derivatives	2,006	(1,947)	(636)	3,284
Interest income	1		4	3
Interest expense	(852)	(933)	(1,841)	(1,891)
Total other income (loss)	1,155	(2,880)	(2,473)	1,396
Income (loss) before income taxes	2,499	(1,801)	132	2,996
Income tax benefit	261		121	
Net income (loss)	2,760	(1,801)	253	2,996
Net income (loss) per share:				
Basic	0.15	(0.10)	0.01	0.17
Diluted	0.15	(0.10)	0.01	0.16
Weighted average shares outstanding:				
Basic	18,566,748	17,996,437	18,549,389	17,410,366
Diluted	18,943,962	17,996,437	18,915,995	18,442,363

See accompanying notes to consolidated financial statements.

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INFUSYSTEM HOLDINGS, INC. AND SUBSIDIARY
(formerly HAPC, INC.)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

<i>(in thousands)</i>	Six Months Ended June 30	
	2009	2008
OPERATING ACTIVITIES		
Net Income	253	2,996
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss (gain) on derivative liabilities	636	(3,284)
Provision for doubtful accounts	1,844	1,775
Depreciation	1,886	2,016
Amortization of intangible assets	914	914
Amortization of deferred debt issuance costs	264	338
Loss on disposal of assets	207	302
Stock-based compensation	545	687
Deferred income taxes	787	
Changes in current assets and liabilities:		
(Increase) decrease in accounts receivable, net of provision	(2,653)	104
Increase in accounts receivable federal income taxes	(1,317)	
(Increase) decrease in prepaid expenses and other current assets	(511)	830
Increase (decrease) in accounts payable and other current liabilities	657	(747)
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,512	5,931
INVESTING ACTIVITIES		
Capital expenditures	(2,672)	(575)
Proceeds from sale of property	1	
Other assets	(18)	
Payment of deferred acquisition costs		(105)
NET CASH USED IN INVESTING ACTIVITIES	(2,689)	(680)
FINANCING ACTIVITIES		
Principal payments on term loan	(6,929)	(818)
Principal payments on capital lease obligation	(43)	(20)
NET CASH USED IN FINANCING ACTIVITIES	(6,972)	(838)
Net change in cash and cash equivalents	(6,149)	4,413
Cash and cash equivalents, beginning of period	11,513	3,960
Cash and cash equivalents, end of period	5,364	8,373
SUPPLEMENTAL DISCLOSURES		
Cash paid for interest (including swap payments/proceeds, and excluding capitalized interest)	\$ 1,533	\$ 1,544
Cash paid for income taxes	\$ 39	\$ 470
NON-CASH TRANSACTIONS		
Additions to property (a)	\$ 1,002	\$ 60

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Property acquired pursuant to a capital lease

\$ 480

- (a) Amounts consist of current liabilities for net property that have not been included in investing activities. These amounts have not been paid for as of June 30, 2009 and 2008 but will be included as a cash outflow from investing activities for capital expenditures when paid.
See accompanying notes to consolidated financial statements.

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INFUSYSTEM HOLDINGS, INC. AND SUBSIDIARY

(formerly HAPC, INC.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. Basis of Presentation and Nature of Operations

The information in this Quarterly Report on Form 10-Q includes the financial position of InfuSystem Holdings, Inc. (formerly HAPC, INC.) and its consolidated subsidiary, InfuSystem, Inc. (InfuSystem, together with InfuSystem Holdings, Inc., the Company) as of June 30, 2009 and December 31, 2008, the results of operations for the three and six months ended June 30, 2009 and 2008, and cash flows for the six months ended June 30, 2009 and 2008.

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). All intercompany accounts and transactions have been eliminated. Results of operations for the three and six months ended June 30, 2009 are not necessarily indicative of the results for an entire year.

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

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

The Company supplies electronic ambulatory infusion pumps and associated disposable supply kits to physicians' offices, infusion clinics and hospital outpatient chemotherapy clinics to be utilized by patients who receive continuous chemotherapy infusions. The Company obtains an assignment of insurance benefits from the patient, bills the insurance company or patient accordingly, and collects payment. The Company provides pump management services for the pumps and associated disposable supply kits to approximately 1,550 oncology practices in the United States. The Company retains title to the pumps during this process. In addition, the Company sells safety devices for cytotoxic drug transfer and administration and sells or rents pole-mounted or ambulatory infusion pumps for use within the oncology practice.

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

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

2. Summary of Significant Accounting Policies

Principles of Consolidation

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

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates, assumptions and judgments that affect the amounts reported in the financial statements, including the notes thereto.

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The Company considers critical accounting policies to be those that require more significant judgments and estimates in the preparation of its consolidated financial statements, including the following: revenue recognition, which includes contractual allowances; accounts receivable and allowance for doubtful accounts; income taxes; and goodwill valuation. Management relies on historical experience and other assumptions believed to be reasonable in making its judgment and estimates. Actual results could differ materially from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. The Company maintains its cash and cash equivalents primarily with a single financial institution and is fully insured with the Federal Deposit Insurance Corporation (FDIC) under the temporary liquidity guarantee program.

Accounts Receivable and Allowance for Doubtful Accounts

The Company has agreements with third-party payors which provide for payments at amounts different from established rates. Accounts receivable and net revenue are reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered. The Company performs periodic analyses to assess the accounts receivable balances. It records an allowance for doubtful accounts based on the estimated collectability of the accounts such that the recorded amounts reflect estimated net realizable value. Upon determination that an account is uncollectible, the account is written-off and charged to the allowance.

Substantially all of the Company's receivables are related to providing healthcare services to patients. Accounts receivable are reduced by an allowance for amounts that could become uncollectible in the future. The Company's estimate for its allowance for doubtful accounts is based upon management's assessment of historical and expected net collections by payor. Due to continuing changes in the health care industry and third-party reimbursement, including potentially significant changes to the U.S. health care system being proposed by the present administration, it is possible that management's estimates could change in the near term, which could have an impact on its financial position, results of operations, and cash flows.

Inventory Supplies

Inventory supplies are stated at the lower of cost (determined on a first in, first out basis) or market. The Company records a period expense for inventory supplies obsolescence when incurred.

Property and Equipment

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

Long-Lived Assets

The Company accounts for the impairment and disposition of long-lived assets in accordance with SFAS No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets*. SFAS No. 144 addresses financial accounting and reporting for the impairment of long-lived assets and for the disposal of long-lived assets. In accordance with SFAS