

InfuSystem Holdings, Inc
Form 10-Q
May 12, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the quarterly period ended March 31, 2015**

or

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

Commission File Number: 001-35020

INFUSYSTEM HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

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

31700 Research Park Drive

Madison Heights, Michigan 48071

(Address of Principal Executive Offices including zip code)

(248) 291-1210

(Registrant's Telephone Number, Include Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes 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

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

As of April 30, 2015, 22,359,756 shares of the registrant's common stock, par value \$0.0001 per share, were outstanding.

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Table of Contents**Item 1. Financial Statements****INFUSYSTEM HOLDINGS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

<i>(in thousands, except share data)</i>	March 31, 2015 (Unaudited)	As of December 31, 2014
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 3,224	\$ 515
Accounts receivable, less allowance for doubtful accounts of \$4,831 and \$4,739 at March 31, 2015 and December 31, 2014, respectively	11,498	10,300
Inventory	1,979	1,758
Other current assets	1,129	633
Deferred income taxes	2,252	2,252
Total Current Assets	20,082	15,458
Medical equipment held for sale or rental	2,671	2,255
Medical equipment in rental service, net of accumulated depreciation	21,908	19,814
Property & equipment, net of accumulated depreciation	2,457	2,451
Deferred debt issuance costs, net	147	1,194
Intangible assets, net	25,852	25,073
Deferred income taxes	14,143	13,756
Other assets	206	212
Total Assets	\$ 87,466	\$ 80,213
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	\$ 5,367	\$ 5,215
Current portion of long-term debt	5,537	6,452
Other current liabilities	2,157	3,062
Total Current Liabilities	13,061	14,729
Long-term debt, net of current portion	28,080	19,032
Total Liabilities	\$ 41,141	\$ 33,761
Stockholders Equity:		
Preferred stock, \$.0001 par value: authorized 1,000,000 shares; none issued		
Common stock, \$.0001 par value: authorized 200,000,000 shares; issued and outstanding 22,506,421 and 22,308,730, respectively, as of March 31, 2015 and 22,506,421 and 22,308,730, respectively, as of December 31, 2014	2	2
Additional paid-in capital	90,442	90,155

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Retained deficit	(44,119)	(43,705)
Total Stockholders' Equity	46,325	46,452
Total Liabilities and Stockholders' Equity	\$ 87,466	\$ 80,213

See accompanying notes to unaudited consolidated financial statements.

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INFUSYSTEM HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

<i>(in thousands, except share and per share data)</i>	Three Months Ended March 31	
	2015	2014
Net revenues:		
Rentals	\$ 15,139	\$ 14,850
Product Sales	1,586	2,392
Net revenues	16,725	17,242
Cost of revenues:		
Cost of revenues Product, service and supply costs	3,015	2,890
Cost of revenues Pump depreciation and disposals	1,621	2,276
Gross profit	12,089	12,076
Selling, general and administrative expenses:		
Provision for doubtful accounts	1,194	2,107
Amortization of intangibles	631	629
Selling and marketing	2,737	2,655
General and administrative	5,975	4,909
Total selling, general and administrative	10,537	10,300
Operating income	1,552	1,776
Other income (expense):		
Interest expense	(672)	(827)
Loss on extinguishment of long term debt	(1,599)	
Other income (expense)	19	(17)
Total other expense	(2,252)	(844)
(Loss) income before income taxes	(700)	932
Income tax benefit (expense)	285	(349)
Net (loss) income	\$ (415)	\$ 583
Net (loss) income per share:		
Basic	\$ (0.02)	\$ 0.03
Diluted	\$ (0.02)	\$ 0.03
Weighted average shares outstanding:		
Basic	22,308,730	21,972,739
Diluted	22,308,730	22,456,143

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See accompanying notes to unaudited consolidated financial statements.

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INFUSYSTEM HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

<i>(in thousands)</i>	Three Months Ended March 31	
	2015	2014
NET CASH USED IN OPERATING ACTIVITIES	\$ (1,392)	\$ (636)
INVESTING ACTIVITIES		
Purchase of medical equipment and property	(3,670)	(1,127)
Proceeds from sale of medical equipment and property	1,118	1,252
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	(2,552)	125
FINANCING ACTIVITIES		
Principal payments on revolving credit facility, term loans and capital lease obligations	(38,633)	(14,394)
Cash proceeds from revolving credit facility	45,980	14,263
Debt issuance costs	(147)	
Principal payments on capital lease obligation	(547)	
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	6,653	(131)
Net change in cash and cash equivalents	2,709	(642)
Cash and cash equivalents, beginning of period	515	1,138
Cash and cash equivalents, end of period	\$ 3,224	\$ 496

See accompanying notes to unaudited consolidated financial statements.

Table of Contents**INFUSYSTEM HOLDINGS, INC. AND SUBSIDIARIES****NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****1. Basis of Presentation, Nature of Operations and Summary of Significant Accounting Policies**

The terms InfuSystem, the Company, we, our and us are used herein refer to InfuSystem Holdings, Inc. and its subsidiaries. InfuSystem Holdings, Inc. is a leading provider of infusion pumps and related services. The Company services hospitals, oncology practices and other alternative site healthcare providers. Headquartered in Madison Heights, Michigan, the Company delivers local, field-based customer support, and also operates pump repair Centers of Excellence in Michigan, Kansas, California, Texas, and Ontario, Canada.

The accompanying unaudited consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) for interim financial information. Accordingly, they do not include all of the information and notes required by U.S. Generally Accepted Accounting Principles (GAAP) for complete financial statements. The accompanying consolidated financial statements include all adjustments, composed of normal recurring adjustments, considered necessary by management to fairly state our results of operations, financial position and cash flows. The operating results for the interim periods are not necessarily indicative of results that may be expected for any other interim period or for the full year. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2014 as filed with the SEC.

The consolidated financial statements are prepared in conformity with GAAP, which requires the use of estimates, judgments and assumptions that affect the amounts of assets and liabilities at the reporting date and the amounts of revenue and expenses in the periods presented. We believe that the accounting estimates employed are appropriate and the resulting balances are reasonable; however, due to the inherent uncertainties in making estimates, actual results could differ from the original estimates, requiring adjustments to these balances in future periods.

2. Medical Equipment and Property

Medical equipment consisted of the following as of March 31, 2015 and December 31, 2014 (in thousands):

	March 31, 2015	December 31, 2014
Medical Equipment held for sale or rental	\$ 2,671	\$ 2,255
Medical Equipment in rental service	45,849	43,246
Medical Equipment in rent service pump reserve	(145)	(121)
Accumulated depreciation	(23,796)	(23,311)
Medical Equipment in rental service net	21,908	19,814
Total	\$ 24,579	\$ 22,069

Depreciation expense for medical equipment for the three months ended March 31, 2015 was \$1.0 million compared to \$0.7 million for the same prior year period, which was recorded in cost of revenues pump depreciation and

disposals, respectively.

Depreciation expense for property and equipment for the three months ended March 31, 2015 was \$0.1 million, which was consistent with the same prior year period. This expense was recorded in general and administrative expenses.

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The carrying amount and accumulated amortization of intangible assets as of March 31, 2015 and December 31, 2014, are as follows (in thousands):

	Gross Assets	March 31, 2015 Accumulated Amortization	Net
Nonamortizable intangible assets			
Trade names	\$ 2,000	\$	\$ 2,000
Amortizable intangible assets			
Physician and customer relationships	32,865	15,303	17,563
Non-competition agreements	848	816	32
Software	7,682	1,424	6,257
Total nonamortizable and amortizable intangible assets	\$ 43,395	\$ 17,543	\$ 25,852

	Gross Assets	December 31, 2014 Accumulated Amortization	Net
Nonamortizable intangible assets			
Trade names	\$ 2,000	\$	\$ 2,000
Amortizable intangible assets			
Physician and customer relationships	32,865	14,755	18,111
Non-competition agreements	848	778	70
Software	6,299	1,407	4,892
Total nonamortizable and amortizable intangible assets	\$ 42,012	\$ 16,940	\$ 25,073

Amortization expense for the three months ended March 31, 2015 was \$0.6 million, which was consistent with the same prior year period. Expected annual amortization expense for intangible assets recorded as of March 31, 2015, is as follows (in thousands):

	4/1- 12/31/2015	2016	2017	2018	2019	2020 and thereafter
Amortization expense	\$ 2,580	\$ 4,290	\$ 4,255	\$ 3,381	\$ 2,191	\$ 7,155

4. Debt

On March 23, 2015, the Company and its direct and indirect subsidiaries entered into a credit agreement (the Credit Agreement) with JPMorgan Chase Bank, N.A., as lender (the Lender). The borrowers under the Credit Agreement are

the Company, InfuSystem Holdings USA, Inc., a Delaware corporation (Holdings), InfuSystem, Inc., a California corporation (InfuSystem), First Biomedical, Inc., a Kansas corporation (FBI), and IFC LLC, a Delaware limited liability company (IFC and, collectively with the Company, Holdings, InfuSystem and FBI, the Borrowers). The Credit Agreement consists of a \$27.0 million Term Loan A, up to \$8.0 million Term Loan B and a \$10.0 million revolving credit facility (the Revolver), all of which mature on March 23, 2020, collectively (the Credit Facility).

On March 23, 2015, the Borrowers drew \$27.0 million under the Term A Loan to repay and terminate the previously existing credit facility under the credit agreement dated November 30, 2012, as amended, by and among the Company, its direct and indirect subsidiaries, Wells Fargo Bank, National Association, as administrative agent, and certain lenders party thereto (the WF Facility). Term Loan B was unfunded at closing and as of March 31, 2015 and is available for the Company to draw upon for a period of 180 days post-closing in respect of a Permitted Acquisition. As of March 31, 2015, interest on the Credit Facility is payable at the

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Company's choice of Eurodollar Loan at a per annum rate equal to LIBOR plus a margin ranging from 2.00% to 2.50% or CBFR Loans which bears interest at a per annum rate equal to (a) the Lender's prime rate or (b) LIBOR for a 30 day interest period plus 2.50%, in each case plus a margin ranging from -0.75% to -0.25%. The availability under the Revolver is based upon the Company's eligible accounts receivable and eligible inventory and is broken down as follows (in thousands):

	March 31, 2015	December 31, 2014
Revolver:		
Gross Availability	\$ 10,000	\$ 7,432
Outstanding Draws	(1,000)	(566)
Letter of Credit		(282)
Availability on Revolver	\$ 9,000	\$ 6,584

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

The Credit Agreement contains certain affirmative and negative covenants typical for credit facilities of this type. These covenants (subject to certain agreed and customary exceptions set forth in the Credit Agreement) restrict or limit subject to the Lender's prior consent, and in some cases prohibit, the Borrowers from engaging in certain actions, including its ability to, among other things: (i) incur indebtedness; (ii) create liens; (iii) engage in mergers, consolidations, liquidations or dissolutions; (iv) engage in acquisitions; (v) dispose of assets; (vi) pay dividends and distributions or repurchase capital stock or make other restricted payments; (vii) make investments, loans, guarantees or advances; (viii) engage in certain transactions with affiliates; (ix) enter into sale and leaseback transactions; (x) enter into hedging agreements; (xi) enter into agreements that restrict distributions from subsidiaries; and (xii) change their fiscal year.

In addition, the Credit Agreement requires the Borrowers to maintain the following financial covenant obligations:

- (i) a minimum fixed charge coverage ratio of 1.25:1.00;
- (ii) a maximum total leverage ratio ranging from 3.00:1.00 to 2.25:1.00 during specified periods; and
- (iii) a minimum net worth of \$37.5 million.

The Company occasionally enters into capital leases to finance the purchase of ambulatory infusion pumps. The pumps are capitalized into medical equipment in rental service at their fair market value, which equals the value of the future minimum lease payments and are depreciated over the useful life of the pumps.

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The Company had approximate future maturities of loans and capital leases as of March 31, 2015 as follows (in thousands):

	2015	2016	2017	2018	2019	2020	Total
Term Loans	\$ 1,930	\$ 3,860	\$ 3,860	\$ 3,860	\$ 3,860	\$ 9,630	\$ 27,000
Revolver		1,000					1,000
Capital Leases	1,977	2,285	1,234	121			5,617
Total	\$ 3,907	\$ 7,145	\$ 5,094	\$ 3,981	\$ 3,860	\$ 9,630	\$ 33,617

The following is a breakdown of the Company's current and long-term debt (including capital leases) as of March 31, 2015 and December 31, 2014 (in thousands):

March 31, 2015			December 31, 2014	
Current Portion of Long-Term Debt	Long-Term Debt	Total	Current Portion of Long- Term Debt	