InfuSystem Holdings, Inc
Form 10-K
March 19, 2018

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C., 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2017

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 001-35020

INFUSYSTEM HOLDINGS, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**20-3341405**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**

31700 Research Park Drive

Madison Heights, Michigan 48071

(Address of Principal Executive Offices) (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 Each Exchange on which Registered**
Common Stock, par value $0.0001 per share	**NYSE American LLC**

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Emerging growth company

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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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 registrants most recently completed second fiscal quarter, was $31,478,640. 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 March 2, 2018 was 22,805,775.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement to be filed with the Securities and Exchange Commission in connection with the solicitation of proxies for its 2018 Annual Meeting of Stockholders are incorporated by reference in Part III of this Form 10-K.

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References in this Form 10-K to "we", "us", or the "Company" are to InfuSystem Holdings, Inc. ("InfuSystem") and our wholly owned subsidiaries, as appropriate to the context.

Cautionary Statement About Forward-Looking Statements

Certain statements contained in this Form 10-K are 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"). The words "believe," "may," "will," "estimate," "continue," "anticipate," "intend," "should "expect," "strategy," "future," "likely," variations of such words, and other similar expressions, as they relate to the Company, are intended to identify forward-looking statements. However, the absence of these words or similar expressions does not mean that a statement is not forward-looking. In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, the Company is identifying certain factors that could cause actual results to differ, perhaps materially, from those indicated by these forward-looking statements. InfuSystem does not intend, and does not undertake any obligation to update any forward-looking statement to reflect future events or circumstances after the date of such statements, except as may be required by law. Important factors that could cause our actual results and financial condition to differ materially from the forward-looking statements include, without limitation, those described in "Risk Factors" and elsewhere in this Form 10-K, and the following:

- our dependence on estimates of collectible revenue from third-party reimbursement;
- litigation in which we may be involved from time to time;
- changes in third-party reimbursement processes, rates, contractual relationships and payor mix;
- risks associated with the loss of a relationship with one or more third-party payors;
- risks associated with a federal government shutdown;
- risks associated with the federal government's sequestration;
- our dependence on a limited number of third-party payors;
- physicians' acceptance of infusion pump therapy over alternative therapies and focus on early detection and diagnostics;
- our dependence on our Medicare Suppler Number;
- availability of chemotherapy drugs used in our infusion pump systems;
- our expectations regarding enacted and potential legislative and regulatory changes impacting, among other things, the level of reimbursement received from the Medicare and state Medicaid programs including CMS competitive bidding;
- our dependence upon our suppliers;
- periodic reviews and billing audits from governmental and private payors;
- risks associated with the collection of sales or consumption taxes;
- our ability to implement, both internally and externally, information technology improvements and to respond to technological changes, interruptions and security breaches;
- our ability to maintain controls and processes over billing and collection and the adequacy of our allowance for doubtful accounts;

- our ability to comply with state licensure laws for DME suppliers;
- risks associated with our allowance for doubtful accounts;
- our ability to execute our business strategies to grow our business, including our ability to introduce new products and services;
- natural disasters affecting us, our customers or our suppliers;
- industry competition;
- compliance with regulatory guidelines affecting our billing practices;
- defective products manufactured by third-party suppliers;
- our ability to execute on acquisition and joint-venture opportunities and integrate any acquired businesses;
- our ability to maintain relationships with health care professionals and organizations;
- our ability to comply with changing health care regulations;
- our ability to protect our intellectual property;
- our ability to hire and retain key employees;
- our ability to remain in compliance with our credit facility or future debt agreements;
- general economic uncertainty;
- volatility in the market price of our stock;
- the future price our stock may be negatively affected by not paying dividends;

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- potential dilution to current stockholders from the issuance of equity awards; and
- we may be subject to limitations on net operating loss carryforwards and certain built-in losses following an ownership change.

These risks are not exhaustive. Other sections of this Form 10-K include additional factors which could adversely impact our business and financial performance. Moreover, we operate in a very competitive and 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. All forward-looking statements made in this Form 10-K speak only as of the date of this report. We do not intend, and do not undertake any obligation, to update any forward-looking statements to reflect future events or circumstances after the date of such statements, except as required by law.

You should not rely upon forward-looking statements as predictions of future events. Our actual results and financial condition may differ materially from those indicated in the forward-looking statements. We qualify all of our forward-looking statements by these cautionary statements. 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. Therefore, you should not rely on any of the forward-looking statements. In addition, with respect to all of our forward-looking statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

Market and Industry Data

This Form 10-K contains market, industry and government data and forecasts that have been obtained from publicly available information, various industry publications and other published industry sources. We have not independently verified the information and cannot make any representation as to the accuracy or completeness of such information. None of the reports and other materials of third party sources referred to in this Form 10-K were prepared for use in, or in connection with, this report.

Trademarks and Tradenames

We have a number of registered trademarks, including EXPRESS,™ InfuBus™ or InfuConnect™ and Pump Portal.™ These and other trademarks of ours appearing in this report are our property. Solely for convenience, trademarks and trade names of ours referred to in this Form 10-K may appear without the ® or ™ symbols, but such references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights or the right of the applicable licensor to these trademarks and trade names. This report may contain additional trade names and trademarks of other companies. We do not intend our use or display of other companies' trade names or trademarks to imply an endorsement or sponsorship of us by such companies, or any relationship with any of these companies.

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PART I

Item 1. Business.

Background

The Company is a Delaware corporation, which was formed in 2005. It operates through operating subsidiaries, including InfuSystem Holdings USA, Inc., a Delaware corporation ("Holdings"), InfuSystem, Inc., a California corporation ("ISI"), First Biomedical, Inc., a Kansas corporation ("First Biomedical") and IFC, LLC, a Delaware limited liability company ("IFC").

Business Concept and Strategy

We are a leading provider of infusion pumps and related products and services for patients in the home, oncology clinics, ambulatory surgery centers, and other sites of care from six locations in the United States and Canada. We provide our products and services to hospitals, oncology practices and facilities and other alternate site health care 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, Texas, Georgia and Ontario, Canada. ISI is accredited by the Community Health Accreditation Program ("CHAP") while First Biomedical is ISO certified.

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, pain management and other disease states ("Oncology Business"). Colorectal cancer is the third most prevalent form of cancer in the United States, according to the American Cancer Society, and the standard of care for the treatment of colorectal cancer relies upon continuous chemotherapy infusions delivered via ambulatory infusion pumps.

In addition, 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. We also provide these products and services to customers in the hospital market.

We purchase new and pre-owned pole mounted and ambulatory infusion pumps from a variety of sources on a non-exclusive basis. We repair, refurbish and provide biomedical certification for the devices as needed. The pumps are then available for sale, rental or to be used within our ambulatory infusion pump management service.

One aspect of our business strategy is to expand into treatment of other cancers. In 2017, our Oncology Business approximated 64% of our total revenues. In 2017, we generated approximately 37% of our total revenues from treatments for colorectal cancer and 27% of our revenues from treatments for non-colorectal disease states. There are a number of approved treatment protocols for pancreatic, head and neck, esophageal and other cancers, as well as other disease states 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 diseases other than colorectal cancer. Additional drugs or protocols currently in clinical trials may also obtain regulatory approval over the next several years. If these new drugs or protocols obtain regulatory approval for use with continuous infusion protocols, we expect the pharmaceutical companies to focus their sales and marketing efforts on promoting the new drugs and protocols to physicians.

Another aspect of our business is to seek opportunities to leverage our extensive billing capabilities, pump resources and networks of oncology practices and insurers. This leverage may take the form of new products and/or services, strategic alliances, joint ventures and/or acquisitions. One of these is providing our ambulatory pumps, products, and services in the area of post-surgical peripheral nerve block. With regard to acquisitions, we believe there are additional opportunities, beyond our acquisition of Ciscura Holding Company, Inc., and its subsidiaries ("Ciscura") that was made in April 2015, to acquire smaller, regional competitors, in whole or part that perform similar services to us but do not have the national market access, 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, including pain management and smart pumps, and introducing key new information technology based services such as EXPRESS,™ InfuBus™ or InfuConnect™ and Pump Portal.™

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We face the risk that other competitors can provide the same services as we provide. That risk is currently mitigated and barriers to entry are created by our (i) growing number of third-party payor networks under contract, which exceeded 520 third-party payor networks for the fiscal year ended December 31, 2017, an increase of 70 networks, or 15%, over the prior year period; (ii) economies of scale, which allow for predictable reimbursement and less costly purchase and management of the pumps, respectively; (iii) established, long standing relationships as a provider of pumps to outpatient oncology practices in the U.S.; (iv) pump fleet of ambulatory and large volume infusion pumps for rent and for sale, which may allow us to be more responsive to the needs of physicians, outpatient oncology practices, hospitals, outpatient surgery centers, homecare practices, patient rehabilitation centers and patients than a new market entrant; (v) six geographic locations in the U.S. and Canada that allow for same day or next day delivery of pumps with plans for a seventh in the northeastern U.S.; and (vi) pump repair and service capabilities at all of these facilities. We do not perform any research and development on pumps, but we have made, and continue to make, significant investments in developing our information technology as described below.

Management is intent on extending its considerable breadth of payor networks under contract as patients move into different insurance coverages, including Medicaid and Insurance Marketplace products. In some cases, this may slightly reduce our aggregate billed revenues payment rate but result in an overall increase in collected revenues, due to a reduction in bad debt expense. Consequently, we are increasingly focused on net collected revenues less bad debt.

In the midst of changes in the healthcare arena, we believe that we will support our overall business strategy discussed above by (i) focusing on supporting recurring revenues by increasing our pump fleet; (ii) improving liquidity and strengthening the balance sheet by keeping debt levels comparable to our operations; (iii) improving internal operational efficiencies; (iv) increasing our product and services offerings; (v) enhancing our technology offerings to the patients and providers of care; and (vi) investigating synergistic acquisitions.

Continuous Infusion Therapy

Continuous infusion of chemotherapy involves the gradual administration of a drug via a small, lightweight, portable infusion pump over a prolonged period of time. A cancer patient can receive his or her medicine anywhere from one 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 2015 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.

Significant recent 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 damage) of the chemotherapy drug Doxorubicin is decreased by schedules of administration according to The Chemotherapy Source Book by Michael C. Perry. 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, going shopping, and caring 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.

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Services

Our core service is our Oncology Business. After providing ambulatory pumps to oncology offices, infusion clinics and hospital and outpatient chemotherapy clinics, we then directly bill and collect payment from payors and patients for the use of these pumps. At any given time, our pumps are in the possession of these facilities, on a patient, in transport, or in our facilities for cleaning, calibration and storage as reserves for increased demand.

After a physician determines that a patient is eligible for ambulatory infusion pump therapy, the physician arranges for the patient to receive an infusion pump and provides the necessary chemotherapy drugs. The physician and nursing staff train the patient in the use of the pump and initiate service. The physician bills the payors, which include Medicare, Medicaid, third-party payor companies 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 (i) payors and (ii) patients for copays and deductibles, for the use of the pump and related disposable supplies. Billing to payors requires coordination with patients and physicians who initiate the service, as physicians' offices must provide us with appropriate documentation (patient's insurance information, physician's order, an acknowledgement of benefits that shows receipt of equipment by the patient, and, in some cases, physician's progress notes) in order for us to submit a bill to the payors. We do provide assistance to those that cannot afford our pumps via our financial hardship program – a program that usually matches what our physician practices provide as long as the uninsured patients meet certain criteria. This billing process is handled from our Madison Heights, Michigan location.

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 a week ("24x7") service and support. We employ oncology, pain, and Intravenous Certified and Oncology 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 services also allow 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 provide methods for the physician offices to deliver the appropriate paperwork for billing through a number of electronic means including EXPRESS™ and InfuConnect™ reducing the required effort on the employees of the physician offices.

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

Other services we offer include the rental, sale or leasing of pole mounted and ambulatory infusion pumps to oncology practices, hospitals and other clinical settings. As of December 31, 2017, our rental fleet of pole mounted and ambulatory pumps had a historical gross cost of $58.0 million, down from $59.0 million from the end of 2016, and included approximately 70 makes and models of equipment dedicated to our rental services. These pumps are available for daily, weekly, monthly or annual rental periods. As of December 31, 2017 and 2016, we had a fleet of new and used pole mounted and ambulatory pumps with a historical cost of $1.6 million for sale or rental.

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 from us. We operate pump service and repair Centers of Excellence from all of our locations across the United States and Canada and employ a staff of highly trained technicians to provide these services. Our main Center of Excellence for service is our Lenexa, Kansas facility.

We also offer electronic ambulatory infusion pumps for post-operative pain management using our pumps along with a numbing agent and a continuous nerve block catheter – continuous peripheral nerve block (“CPNB”). Using CPNB for the management of post-operative pain, which usually lasts two to three days after surgery, can result in reduced pain for the patient, increased satisfaction scores for the surgical center or hospital, and reduced need for post-operative medication.

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Information Technology

The Company's first Chief Information Officer was hired in 2013 to transform the Company's Information Technology ("IT") platform and enhance business processes beginning in 2014. IT refocused on not only supporting our internal IT needs to reduce our platforms and redundant systems from two IT platforms into a consolidated solution but also in supporting electronic medical record technology ("EMR") to be used by medical facilities using the Company's infusion pumps and services via our solutions such as EXPRESS™ and InfuConnect.™ This focus has enabled current billing information to be transferred to the Company from these facilities electronically and automatically, bypassing the current methods of mail, email, and/or facsimile. We expect that this focus will continue to strengthen our relationships with our existing customers and result in additional investment in intangible software assets by the Company. An additional IT customer focused solution is PumpPortal.™ Our continued focus on IT efforts has resulted in the following new product:

EXPRESS,™ powered by InfuBus data integration platform, provides for paperless delivery of the appropriate information for InfuSystem to bill payors:

- eliminating all paper;
- providing an enhanced visibility as a result of real time status and reporting;
- reducing risk of error;
- automating treatment logs, pump assignments, tracking and physician's orders;
- providing a secure scanner for easy pumps assignment to patients; and
- removing interruptions from physician practices daily schedules, and standardizing data flow for clinics and hospitals with multiple locations

In 2017 and 2016, the Company capitalized $0.2 million and $3.5 million, respectively, into IT, with specific focus as discussed above, plus other internal operational efficiencies and new products and support.

Relationships with Physician Offices

As of December 31, 2017, we had business relationships with clinical oncologists in excess of 1,800 outpatient oncology clinics. Although this represents a substantial number 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 managing institutional constraints on capital and manpower due to the nature of limited resources in hospitals and physician offices.

Physician practices in the oncology field are consolidating – similar to healthcare practices in general. However, as of December 31, 2017, we had gained more facilities than we had lost. We expect this trend to continue in the near future.

Employees

As of December 31, 2017, we had 245 employees, including 234 full-time employees and 11 part-time or contract 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 infusion pumps. Smiths Medical, Inc. supplies more than 10% of the ambulatory pumps purchased by us. The Company has a supply agreement in place with this supplier. Certain “spot” purchases are made on the open market subject to individual negotiation.

Seasonality

Our business rental activity is not subject to seasonality. Revenues from this activity, net of bad debt, may be seasonal due to the impact of co-pays and deductibles for patients’ insurance that traditionally reset each January. This has been further impacted by changes in the insurance industry as it responds to increased government regulation. Also, rental customers tend to make buy versus rent decisions late in the year as customer capital budgets are being finalized, impacting sales revenue in the second half of the year, predominantly in the fourth quarter. Furthermore, as the Company’s liquidity has improved, opportunistic pump purchases are made from time to time. These opportunistic pump purchases also allow for opportunistic pump sales, which could be material. The timing of such purchases and sales vary within the course of a year.

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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 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 health care services to enrolled members through participating providers such as us. A payor is any entity that pays on behalf of a member patient.

As of December 31, 2017, we had contracts with more than 520 third-party payor networks, an increase of 70 networks, or 15%, over the prior year period. Material terms of contracts with third-party payor organizations are typically a set fee or rate, or a discount from billed charges for equipment provided. The majority of these contracts generally provide for a term of one year, with automatic one-year renewals, unless we or the contracted payor elect not to renew. For 2017, our largest contracted payor was a national association comprised of multiple members, which in the aggregate, accounted for approximately 24% of our net revenues from our Oncology Business and approximately 13% of our total revenues for the year ended December 31, 2017, respectively. For 2017, our next largest contracted payor, was a national association comprised of multiple members, which, in the aggregate, accounted for approximately 6% of our net revenues from our Oncology Business and approximately 6% of our total revenues for the year ended December 31, 2017, respectively.

For 2016, our largest contracted payor was Medicare, which accounted for approximately 21% of our net revenues from our Oncology Business and approximately 13% of our total revenues for the year ended December 31, 2016, respectively. Our next largest contracted payor was a national association comprised of multiple members, which, in the aggregate, accounted for approximately 19% of our net revenues from our Oncology Business and approximately 13% of our total revenues for the year ended December 31, 2016, respectively. Effective July 1, 2016, we implemented Medical Learning Network (“MLN”) Matters Number SE1609 “Medicare Policy Clarified for Prolonged Drug and Biological Infusions Started Incident to a Physician’s Service Using an External Pump” clarification article (“SE1609”) from the Centers for Medicare and Medicaid Services (“CMS”). The implementation of SE1609 resulted in our revenues being reduced by approximately $2.6 million for 2017 when compared to 2016.

We also contract with various other third-party payor organizations, Medicaid, commercial Medicare replacement plans, self-insured plans and numerous other insurance carriers. Other than the payors noted above, no other single payor represented more than 10% of third-party payor net revenue.

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 limited 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.

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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 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 supplier standards established by CMS regulating Medicare suppliers of DMEPOS ("DMEPOS Supplier Standards"). 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 CMS agents 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 certain specified surety bond requirements.

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 regulations in the various states in which we operate. We believe we are in material compliance with all such regulations.

In addition, the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act, or collectively the ACA, imposes a 2.3% excise tax on medical devices that applies to sales within the United States of a majority of our pump products that we purchase. This law imposes an excise tax on the first sale of medical devices by a manufacturer, producer, or importer equal to 2.3% of the sales price. This tax only applies directly to new pumps that we purchase from manufacturers. Taxable medical devices include any device as defined in Section 201(h) of the Federal Food, Drug, and Cosmetic Act intended for humans, with the exception of eyeglasses, contact lenses, hearing aids and any other device determined by the Secretary of Health and Human Services to be a type which is generally purchased by the general public at retail for individual use. On December 18, 2015, under the Consolidated Appropriations Act, 2016 (Pub. L. 114-113), a two-year moratorium on the medical device excise tax was imposed by Section 4191 of the Internal Revenue Code (the "Code"). On January 22, 2018, the H.R. 195: Extension of Continuing Appropriations Act Bill extended the existing suspensions of the ACA's medical device excise tax through 2019. Thus, the medical device excise tax does not apply to the sale of a taxable medical device by the manufacturer, producer, or importer of the device during the period beginning on January 1, 2016 and ending on December 31, 2019. Future legislation could have a material effect on our business, cash flows, financial condition and results of operations.

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Recent Events in Our Business

Management Changes

On November 16, 2017, the Company announced that Richard DiIorio had been appointed as the Company's Chief Executive Officer and a member of the Board of Directors, effective November 15, 2017.

On February 7, 2018, the Company announced that its interim chief financial officer, Christopher Downs, had informed the Company of his decision to resign his position with the Company, effective March 31, 2018. Mr. Downs' resignation did not reflect any dispute or disagreement with the Company, nor did it relate to any issues with respect to the Company's financial performance. Mr. Downs agreed to continue in his position as interim chief financial officer until the end of the first quarter of fiscal year 2018 in order to assist the Company with the preparation and reporting of its annual financial statements. Following Mr. Downs' departure, Trent Smith, CPA, the Company's executive vice president, corporate controller and chief accounting officer will assume Mr. Downs' responsibilities as treasurer and principal financial officer. The Company has begun a search for a new chief financial officer.

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 charters of our audit, nominating and governance and compensation committees and our Code of Business Conduct and Ethics Policy are also available on our Web site and in print to any stockholder who requests them. The content on our Web site is not incorporated by reference into this Form 10-K unless expressly noted.

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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 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 OUR BUSINESS AND THE INDUSTRY IN WHICH WE OPERATE

Our business is substantially dependent on estimates of collectible revenue from third-party reimbursement.

Our revenues are substantially dependent on estimates of collectible revenue from third-party reimbursement. Due to the complex nature of third-party reimbursement for the use of continuous infusion equipment and related disposable supplies provided to patients, we must estimate, based upon historical averages, the amount of collectible revenue that may be derived from each patient treatment. If average reimbursement diverges from historical levels, the estimates of such revenue may diverge from actual collections.

We utilize statistical methods to account for such changes, but there can be no assurance that the revenue reported in any period will ultimately be collected. Any recognized revenue related to third-party reimbursement from prior periods, which remains uncollected until written off from accounts receivable, will negatively impact revenues in the period in which it is written off. Thus, over time, recognized revenue net of bad debt expense will approximate total collections.

We may become subject to legal proceedings that could have a material adverse impact on our business, results of operations and financial condition.

From time to time and in the ordinary course of our business, we and certain of our subsidiaries may become involved in various legal proceedings. All such legal proceedings are inherently unpredictable and, regardless of the merits of the claims, litigation may be expensive, time-consuming and disruptive to our operations and distracting to management. If resolved against us, such legal proceedings could result in excessive verdicts, injunctive relief or other equitable relief that may affect how we operate our business. Similarly, if we settle such legal proceedings, it may affect how we operate our business. Future court decisions, alternative dispute resolution awards, business expansion or legislative activity may increase our exposure to litigation and regulatory investigations. In some cases, substantial non-economic remedies or punitive damages may be sought. Although we maintain liability insurance coverage, there can be no assurance that such coverage will cover any particular verdict, judgment or settlement that may be entered

against us, that such coverage will prove to be adequate or that such coverage will continue to remain available on acceptable terms, if at all. If we incur liability that exceeds our insurance coverage or that is not within the scope of the coverage in legal proceedings brought against us, it could have a material adverse effect on our business, results of operations and financial condition.

Our business is substantially dependent on third-party reimbursement. Any change in the overall health care reimbursement system may adversely impact our business.

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 the use of 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 business, 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.

Changes in the health care reimbursement system often create financial incentives and disincentives that encourage or discourage the use of a particular type of product, therapy or clinical procedure. Such changes may be impacted by the growth in ACOs, reduction of providers by payors, the use of lower cost rental networks and other factors. Market acceptance of continuous infusion therapy may be adversely affected by changes or trends within the health care reimbursement system. Changes to the health care reimbursement system that favor other technologies or treatment regimens that reduce reimbursements to providers or treatment facilities, including increasing competitive pressures from home health care and other companies that use our services, may adversely affect our ability to market our services profitably. Overall, such dependency and potential changes could materially and adversely affect our business, financial condition, results of operations and cash flows.

The loss of a relationship with one or more third-party payors could negatively impact our business.

Our contracts for reimbursement with third-party payors are often for a term of one year, with automatic one-year renewals, unless we or the contracted payor elect not to renew. These evergreen contracts are subject to termination upon written notice. One or more terminations could have a material and adverse effect on our business, financial condition, results of operations and cash flows.

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Any federal government shutdown may adversely impact our business.

Our revenues are dependent on private insurers and governmental agencies. In the absence of any bipartisan agreement in the federal government with respect to payments from governmental agencies, our revenues could be reduced. In addition, any federal government shutdown could also have a material and adverse impact on our business, financial condition, results of operations and cash flows.

Our business has and may continue to be adversely impacted by the U.S. federal government's sequestration.

On March 1, 2013, most agencies of the U.S. federal government automatically reduced their budgets according to an agreement made by Congress in 2012 known as "sequestration". Originally devised as an incentive to force Congressional agreement on budget issues, the sequestration order was approved on March 1, 2013 by the President of the United States. Beginning in 2013, we were impacted by the sequestration order, which effects Medicare payments. For the year ended December 31, 2017, the impact on our net revenues was approximately $0.1 million compared to $0.4 million for the year ended December 31, 2016. For the period ending December 31, 2017, sequestration mainly applied to payments received from Medicare Advantage plans by the Company. As of the date of this report, it is our understanding that the mandatory payment reduction of 2% will continue until further notice. We also believe that the cuts will likely continue until definitive action is taken by the U.S federal government on this issue.

Payor concentration may adversely impact our business.

As of December 31, 2017, we had contracts with more than 520 third-party payor networks, an increase of 70 networks, or 15%, over the prior year period. Material terms of contracts with third-party payor organizations are typically a set fee or rate, or a discount from billed charges for equipment provided. The majority of these contracts generally provide for a term of one year, with automatic one-year renewals, unless we or the contracted payor elect not to renew. For 2017, our largest contracted payor was a national association comprised of multiple members, which in the aggregate, accounted for approximately 24% of our net revenues from our Oncology Business and approximately 13% of our total revenues for the year ended December 31, 2017, respectively. For 2017, our next largest contracted payor, was a national association comprised of multiple members, which, in the aggregate, accounted for approximately 6% of our net revenues from our Oncology Business and approximately 6% of our total revenues for the year ended December 31, 2017, respectively.

For 2016, our largest contracted payor was Medicare, which accounted for approximately 21% of our net revenues from our Oncology Business and approximately 13% of our total revenues for the year ended December 31, 2016, respectively. Our next largest contracted payor, was a national association comprised of multiple members, which, in the aggregate, accounted for approximately 19% of our net revenues from our Oncology Business and approximately

13% of our total revenues for the year ended December 31, 2016, respectively. The implementation of SE1609 resulted in our revenues being reduced by approximately $2.6 million for 2017 when compared to 2016.

We also contract with various other third-party payor organizations, Medicaid, commercial Medicare replacement plans, self-insured plans and numerous other insurance carriers. Other than the payors noted above, no other single payor represented more than 10% of third-party payor net revenue. To the extent such dependency continues, significant fluctuations in revenues, results of operations and liquidity could arise if any other significant contracted payor reduces its reimbursement for the services we provide.

Our billing process is dependent on meeting payor claims processing guidelines which are subject to change at the discretion of the payors. Such changes would materially impact our ability to bill and the timing of such billings, which could materially and adversely impact our revenues, bad debt expense and cash flows, which impact would be even greater if such changes are made by one of our larger payors.

The continued consolidation of physician practices, outpatient infusion clinics, oncology clinics, homecare providers and hospitals increases the concentration of decision makers whom either choose to use our ambulatory electronic pumps within our Oncology Business or directly rent, lease or purchase pumps or supplies directly from us.

While we make every effort to benefit from such concentration, such concentration could materially and adversely affect our business, financial condition, results of operations and cash flows.

Increased focus on early detection and diagnostics may adversely affect our business.

An increased focus on lowering health care spending via improved diagnostic testing (i.e., defensive medicine) and patient monitoring could materially and negatively affect our business. A large portion of our ambulatory infusion pumps are dedicated to a specific form of cancer (i.e., colorectal). As a result of rising health care costs, there may be a demand for more cost-effective approaches to disease management, specifically for colorectal cancer, as well as for emphasis on screening and accurate diagnostic testing to facilitate early detection of potentially costly, severe afflictions. Any change in the approach to treatment of colorectal cancer could have a material and adverse impact on our business, financial condition, results of operations and cash flows.

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If future clinical studies demonstrate that oral medications or other therapies that do not use our electronic ambulatory pumps are at least as effective as continuous infusion therapy, our business could be adversely affected.

Numerous ongoing clinical trials are currently 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 or other therapies that do not utilize our ambulatory electronic pumps are introduced to the market that are superior to existing oral therapies, physicians' willingness to prescribe continuous infusion-based regimens could decline, which would materially and adversely affect our business, financial condition, results of operations and cash flows.

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. We are required to comply with Medicare DMEPOS 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 revenues are dependent upon our Medicare Supplier Number, the loss of which would materially and adversely affect our business, financial condition, results of operations and cash flows.

The CMS requires that all DME providers must be accredited by a CMS approved accreditation organization. On February 17, 2009, we initially received accreditation from the Community Health Accreditation Program ("CHAP"), and we have remained accredited to date. If we lost our accredited status, our business, financial condition, revenues and results of operations would be materially and adversely affected.

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

We primarily derive our revenues 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 in the continuous infusion pump system, which has occurred in the past, could have a material and adverse effect on our

business, financial condition, results of operations and cash flows.

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

The ACA has perpetuated the development of alternative provider payment models by CMS and the major national commercial payors. These payment models do not replace the current fee-for-service models nor replace current payor contracts, but rather provide additional financial incentives to certain “accountable” providers to improve quality and lower cost. The implications for the Company will come from the provider networks that are forming in order to integrate and coordinate care under these alternative models with CMS and the commercial payors. These provider networks include ACOs, patient-centered primary care medical homes, specialty medical homes, networks accepting bundled payment programs, and other “performance” networks that contract with CMS and commercial payors under alternative payment models that financially reward improved quality and lower medical cost. The relationship between us and our provider practices and facilities that are participating in these provider networks under alternative payment models will depend on (i) the extent to which these provider networks give priority to the medical cost associated with our DME services and (ii) whether our services are seen as part of a care delivery model that delivers higher value – higher quality at a lower cost.

Our failure to perform under these alternative payment models, or under similar models or conditions introduced by future legislation, could have a material adverse impact on our business, financial condition, results of operations and cash flows.

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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 infusion pumps which are supplied to us by one major supplier: Smiths Medical, Inc. The loss or disruption of our relationships with outside vendors, including pump, parts, or supply recall or pump end of life announcements, could subject us to substantial delays in the delivery or service of pumps to customers. Significant delays in the delivery or service 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 on our business, financial condition, results of operations and cash flows.

We face periodic reviews and billing audits from governmental and private payors and these audits could have adverse results that may negatively impact our business.

As a result of our participation in the Medicare and Medicaid programs, we are subject to various governmental reviews and audits to verify our compliance with these programs and applicable laws and regulations. We also are subject to audits under various government programs in which third-party firms engaged by CMS conduct extensive reviews of claims data and medical and other records to identify potential improper payments under the Medicare program. Private pay sources also reserve the right to conduct audits. If billing errors are identified in the sample of reviewed claims, the billing error can be extrapolated to all claims filed which could result in a larger overpayment than originally identified in the sample of reviewed claims. Our costs to respond to and defend reviews and audits may be significant and could have a material adverse effect on our business, financial condition, results of operations and cash flows. Moreover, an adverse review or audit could result in:

• required refunding or retroactive adjustment of amounts we have been paid by governmental or private payors

• state or Federal agencies imposing fines, penalties and other sanctions on us

• loss of our right to participate in the Medicare program, state programs, or one or more private payor networks or
• damage to our business and reputation in various markets.

Any one of these results could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We do not collect sales or consumption taxes in some jurisdictions.

Our core services are exempt from sales tax or its equivalent in many states. However, there are a several states that consider pump rentals, sales and services taxable regardless of method of payment. We are collecting sales tax or its equivalent in numerous jurisdictions. A successful assertion by one or more states or localities requiring us to collect taxes where we currently do not, could result in substantial tax liabilities, including for past sales, as well as penalties and interest.

If we are unsuccessful in our efforts to implement and support information technology improvements or respond to technological changes, our growth, prospects and results of operations could be adversely affected.

To remain competitive, we must continue to enhance and improve the functionality and features of our technology solutions and services. We have implemented a service to support EMR technology with some of our outpatient infusion practices that enables billing information to be transferred between us and medical facilities electronically and automatically, thus eliminating the current use of mail, email and/or faxes. We have also implemented a web portal that supports our rental and service customers. If these efforts cease to be successful, our reputation and ability to attract and retain customers and contributors will be adversely affected. Furthermore, we are likely to incur expenses in connection with continuously updating and improving our technology infrastructure and services. Without such improvements, our operations might suffer from unanticipated system disruptions, slow application performance or unreliable service levels, any of which could negatively affect our reputation and ability to attract and retain customers and contributors. We may face significant delays in introducing new services, products and enhancements.

If competitors introduce new products and services using new technologies or if new industry standards and practices emerge, our existing technology and systems may become obsolete or less competitive, and our business may be harmed. In addition, the expansion and improvement of our systems and infrastructure will require us to commit substantial financial, operational and technical resources, with no assurance that our business will improve.

All of these factors could have a material adverse impact on our business, financial condition, results of operations and cash flows.

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Cyber security risks and cyber incidents could adversely affect our business and disrupt operations.

Cyber incidents can result from deliberate attacks or unintentional events. These incidents can include, but are not limited to, gaining unauthorized access to digital systems for purposes of misappropriating assets or sensitive information, corrupting data, or causing operational disruption. The result of these incidents could include, but are not limited to, disrupted operations, misstated financial data, liability for stolen assets or information, increased cyber security protection costs, litigation and reputational damage adversely affecting customer or investor confidence. We have implemented systems and processes to focus on identification, prevention, mitigation and resolution. However, these measures cannot provide absolute security, and our systems may be vulnerable to cyber-security breaches such as viruses, hacking, and similar disruptions from unauthorized intrusions. In addition, we rely on third party service providers to perform certain services, such as payroll and tax services. Any failure of our systems or third party systems may compromise our sensitive information and/or personally identifiable information of our employees. While we have secured cyber insurance to potentially cover certain risks associated with cyber incidents, there can be no assurance the insurance will be sufficient to cover any such liability.

Technological interruptions or the efficiency of our website and technology solutions could damage our reputation and brand and adversely affect our results of operations.

The satisfactory performance, security, reliability and availability of our network infrastructure are critical to our reputation, our ability to attract and retain customers and our ability to maintain adequate customer service levels. Any system interruptions, outside intrusions, or security breaches could result in negative publicity, damage our reputation and brand or adversely affect our results of operations. We may experience temporary system interruptions for a variety of reasons, including security breaches and other security incidents, viruses, telecommunication and other network failures, power failures, software errors or data corruption. We rely upon third-party service providers, such as co-location and cloud service providers, for our data centers and application hosting, and we are dependent on these third parties to provide continuous power, cooling, internet connectivity and physical security for our servers. In the event that these third-party providers experience any interruption in operations or cease business for any reason, or if we are unable to agree on satisfactory terms for continued hosting relationships, our business could be harmed and we could be forced to enter into a relationship with other service providers or assume hosting responsibilities ourselves. Although we operate two data centers in an active/standby configuration for geographic and vendor redundancy and even though we maintain a third disaster recovery facility to back up our content collection, a system disruption at the active data center could result in a noticeable disruption of our services. Even a disruption as brief as a few minutes could have a negative impact on marketplace activities and could therefore result in a loss of revenues. Because some of the causes of system interruptions may be outside of our control, we may not be able to remedy such interruptions in a timely manner, or at all.

All of these factors could have a material adverse impact on our business, financial condition, results of operations and cash flows.

Our failure to maintain controls and processes over billing and collecting could have a significant negative impact on our Consolidated Financial Statements.

The collection of accounts receivable is a significant challenge, and requires constant focus and involvement by management and ongoing enhancements to information systems and billing center operating procedures. If we are unable to properly bill and collect our accounts receivable, our results could be materially and adversely affected. While management believes that our controls and processes are satisfactory, there can be no assurance that accounts receivable collectability will remain at current levels.

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, 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 materially and adversely affected.

Our allowance for doubtful accounts may not be adequate to cover actual losses.

Our third-party payor contracts do not guarantee annual inflationary increases, typical of the DME payor contracting environment. Contracted reimbursement rates are either subject to increases or decreases in CMS program rates or if not indexed to government rates, are frozen until those payors contracts are reopened and renegotiated. While we monitor reimbursement levels to identify specific payor reimbursement rates that have eroded and renegotiate such rates, we may not be able to maintain or improve overall reimbursement levels, thereby compromising the adequacy of the predicted allowance for doubtful accounts.

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We may also face reduced reimbursements from private third-party payors. As a result, our customers may be unable to make timely payments to us. Although we maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments, we cannot guarantee that we will continue to experience the same loss rates that we have in the past. If we begin to experience an increase in our loss rates in excess of our allowances for doubtful accounts it could materially and adversely impact our business, financial condition, results of operations and cash flows.

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. This population of patients 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.

Our business may be subject to natural forces beyond our control.

Natural disasters, including hurricanes, earthquakes, floods, excessive snowfall and other unfavorable weather conditions, may affect our operations. Natural catastrophes may have a detrimental effect on our gross revenue, preventing many patients from visiting a facility to obtain our ambulatory infusion pumps or receive treatment. Similarly, such events could impact key suppliers or vendors, disrupting the services or materials they provide us. The severity of these occurrences, should they ever occur, will determine the extent to which and if our business, financial condition, results of operations and cash flows is materially and adversely affected.

The industry in which we operate is intensely competitive and ever-changing. 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, including some of the practices that we service, have significantly greater resources than we do for information technology, 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, smart pump licensing, our information technology solutions or our other technological-based solutions at a competitive

disadvantage. Furthermore, the healthcare industry, in general, is experiencing market consolidation, reducing the number of decision makers. If we are unable to effectively compete in our market, our business, financial condition, results of operations and cash flows may be materially and adversely affected.

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 regarding CMS and other payors' billing and documentation requirements. Competitors, who do not meet the same standards of compliance that we do with respect to billing regulations, may put us at a potential competitive disadvantage. We are a participating provider with Medicare and under contract with approximately 520 third-party payor networks, all of which have very stringent guidelines. If our competitors do not comply with these regulatory guidelines, we could be put at a potential competitive disadvantage and our business, financial condition, results of operations and cash flows could be material and adversely affected.

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 or serviced by us, or a failure of pumps distributed by us to perform for the use specified, could have a material and adverse 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 and adverse effect on our business, financial condition, results of operations and cash flows. Furthermore, any impairment of our reputation could have a material and adverse effect on our revenues and prospects for future business.

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

We intend to continue to pursue opportunities for the further expansion of our business through strategic alliances and/or joint ventures. Any future strategic alliances or joint ventures will depend on our ability to identify suitable partners, negotiate acceptable terms for such transactions and obtain financing, if necessary. These investments require significant managerial attention, which may be diverted from our other operations.

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 and services. In addition, we could have difficulty integrating or retaining personnel and maintaining employee morale as we take steps to combine the personnel and business cultures of separate organizations into one and to eliminate duplicate positions and functions. It may also be difficult for us to preserve 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. 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's and employees' attention from our ongoing business operations, result in decreased operating performance and increase our expenses. 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.

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

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

If we fail to comply with applicable governmental or accrediting bodies' regulations, we could face substantial penalties and our business, operations and financial condition could be adversely affected.

Certain federal, state health care, and accreditation bodies' laws and regulations, including those pertaining to fraud and abuse and patients' rights are applicable to our business. The laws that are applicable to our business include:

- the federal health care 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 health care 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;

- HIPAA, which prohibits executing a scheme to defraud any health care benefit program or making false statements relating to health care 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.

If our operations are found to be in violation of any of the laws described above or any other 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 materially and adversely affect our business, financial condition, results of operations and cash flows. 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.

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Failure to protect our intellectual property could substantially harm our business and operating results.

In order to protect our trade secrets and other confidential information, we rely in part on confidentiality agreements with our employees, consultants and third parties with whom we have relationships. These agreements may not effectively prevent disclosure of trade secrets and other confidential information and may not provide an adequate remedy in the event of misappropriation of trade secrets or any unauthorized disclosure of trade secrets and other confidential information. In addition, others may independently discover our trade secrets and confidential information, and in such cases, we could not assert any trade secret rights against such parties. Costly and time-consuming litigation could be necessary to enforce or determine the scope of our trade secret rights and related confidentiality and nondisclosure provisions. Failure to obtain or maintain trade secret protection, or our competitors' acquisition of our trade secrets, could materially and adversely affect our competitive business position.

We are dependent upon executive officers and other key personnel. The loss of any of our executive officers or other key personnel could reduce our ability to manage our businesses and achieve our business plan, which could cause our sales to decline and our operating results and cash flows to suffer.

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 executive officers, managerial, finance, technical and sales and marketing personnel. Competition for these individuals is intense. The loss of the services of any executive officer or other key employee, or our failure to attract and retain other qualified and experienced personnel on acceptable terms, could have a material and adverse effect on our business, financial condition, results of operations and cash flows.

Covenants in our current and any future debt agreement restrict our business.

Our existing credit agreement 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:

- engage in a transaction that results in a change of control, as defined by the credit 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 or acquisitions;
- 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;

repurchase outstanding stock from the open market; and
declare or make, directly or indirectly, any dividend or other restricted payment, or incur any obligation (contingent or otherwise) to do so.

These covenants may restrict our ability to operate our business. Our failure to comply with these covenants could result in an event of default that, if not cured or waived, could result in reduced liquidity for the Company and could have a material and adverse effect on our business, financial condition, results of operations and cash flows. Additionally, our ability to pay interest and repay the principal for our indebtedness is dependent upon our ability to manage our business operations, generate sufficient cash flows to service such debt and the other factors discussed in this section. Our credit agreement also contains certain financial covenants. As of December 31, 2017, we were in compliance with all such covenants, however, there can be no assurance that we will be able to manage any of the risks associated with debt agreements successfully.

Economic uncertainty or economic deterioration could adversely affect us.

While the global economy is improving, there are still uncertainties surrounding the strength of the recovery that may continue to drive stock market and interest rate volatility and adversely impact consumer confidence, product demand, and our ability to refinance our debt. Economic conditions, along with our operating performance, may also materially and adversely impact our ability to access the financial markets. Accordingly, our future business and financial results are subject to uncertainty. If economic conditions deteriorate in the future, our future revenues and financial results could be materially and adversely affected.

Changes in tax laws, including the recently enacted federal tax legislation commonly referred to as the Tax Cuts and Jobs Act of 2017 ("Tax Act"), as well as other factors, could cause us to experience fluctuations in our tax obligations and effective tax rate in 2018 and thereafter.

We are subject to income taxes as well as non-income based taxes in federal and various state jurisdictions. We are currently evaluating the Tax Act with our professional advisers. We have recognized the provisional tax impacts, based on reasonable estimates, related to the revaluation of deferred tax assets and liabilities and have included these amounts in our consolidated financial statements for the year ended December 31, 2017. The ultimate impact may differ from these provisional amounts, possibly materially, due to among other things, additional analysis, changes in interpretations and assumptions we have made, additional regulatory guidance that may be issued, and actions we may take as a result of the Tax Act. In addition, because of the uncertainties relating to the future application of the Tax Act and actions we may take in the future, the effect of the Tax Act on us in 2018 and future years may change significantly and cannot be predicted.

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We are subject to audits by tax authorities from time to time in federal and state jurisdictions. Tax authorities may disagree with certain positions we have taken and assess additional taxes and penalties. We regularly assess the likely outcomes of these audits in order to determine the appropriateness of our tax provision. However, there can be no assurance that we will accurately predict the outcomes of these audits, and the actual outcomes of these audits could have a material impact on our results of operations.

RISK FACTORS RELATING SPECIFICALLY TO OUR COMMON STOCK

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

The market price of our common stock has been and may continue to be volatile. Market prices for securities of health care 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 common stock:

- 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;
- announcements or speculation regarding strategic alliances, mergers, acquisitions or other transactions;
- developments in patent or other proprietary rights;
- the liquidity of the market for our common stock;
- news of other healthcare events or announcements;
- 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, our ability to pay dividends on our common stock is limited and we 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.

Restricted stock and the exercise of stock options may depress our stock price and may result in dilution to our common stockholders.

There are a significant number of shares of restricted stock and outstanding options to purchase our stock. If the market price of our common stock rises above the exercise price of outstanding options, holders of those securities may be likely to exercise their options and sell the common stock acquired upon exercise in the open market. Sales of a substantial number of shares of our common stock in the public market by holders of options may depress the prevailing market price for our common stock and could impair our ability to raise capital through the future sale of our equity securities. Additionally, if the holders of outstanding options exercise those options, our common stockholders will incur dilution in their relative percentage ownership.

As of December 31, 2017, options to purchase 2.1 million shares of common stock were outstanding, at a weighted average exercise price of $2.41 per share, of which 1.1 million were exercisable at a weighted average exercise price of $2.60 per share. In addition, restricted stock of less than 0.1 million shares, with a weighted average grant date fair value of $2.61 per share, were outstanding and were issuable upon the vesting of certain time restrictions.

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We may be subject to limitations on net operating loss carryforwards and certain built-in losses following an ownership change.

If we experience an ownership change, either via a major transaction or a series of trades where a substantial percentage of our ownership changes, which may be less than a majority of our ownership in certain cases, we may be limited in our ability to use our deferred tax assets.

During the fourth quarter of 2017, we completed an update to our analysis of past ownership (as defined under Section 382 of the Code), and as a result, we believe that, consistent with previously completed analyses, we have not experienced an ownership change from December 31, 2010 through the date of such updated analysis. We have undertaken a definitive analysis necessary to quantify the effect of an ownership change as of December 31, 2010 on the net operating loss carryforwards generated prior to December 31, 2010. Based on the analysis, we are subject to an annual limitation of $1.8 million on our use of remaining pre-ownership change net operating loss carryforwards of $4.7 million (and certain other pre-change tax attributes). Our federal net operating loss carryforwards of approximately $34.9 million will begin to expire in various years beginning in 2028. There can be no assurance that we will not experience an ownership change in the future, in which case we may be limited in our ability to use our deferred tax assets. During the fourth quarter of 2017, the Company recorded a full valuation allowance for tax benefits of operating loss and tax credit carryforwards, which is described under the heading “Income Taxes” in Note 7 to our Consolidated Financial Statements included in this Form 10-K.

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
Lenexa	Kansas
Houston	Texas
Santa Fe Springs	California
Mississauga	Ontario, Canada
Alpharetta	Georgia

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

Item 3. Legal Proceedings.

From time to time in the ordinary course of our business, we may be involved in legal proceedings, the outcomes of which may not be determinable. The results of litigation are inherently unpredictable. Any claims against us, whether meritorious or not, could be time consuming, result in costly litigation, require significant amounts of management time and result in diversion of significant resources. We are not able to estimate an aggregate amount or range of reasonably possible losses for those legal matters for which losses are not probable and estimable, primarily for the following reasons: (i) many of the relevant legal proceedings are in preliminary stages, and until such proceedings develop further, there is often uncertainty regarding the relevant facts and circumstances at issue and potential liability; and (ii) many of these proceedings involve matters of which the outcomes are inherently difficult to predict. We have insurance policies covering certain potential losses where such coverage is cost effective.

On January 29, 2018, we received notice that the U.S. District Court for the Central District of California (the “Court”) (Case No. 2:16-cv-08295-ODW) issued an order dismissing, with prejudice, a putative class-active lawsuit against the Company. The dismissal relates to an action brought on November 8, 2016 by a purported shareholder of the Company against the Company and two individual defendants: Eric Steen, the Company’s former Chief Executive Officer, President and Director; and Jonathan Foster, the Company’s former Chief Financial Officer. The complaint asserted claims against all defendants under the antifraud provisions of the federal securities laws and against Messrs. Steen and Foster as control persons. On June 19, 2017, the Company and all defendants filed a Motion to Dismiss the amended complaint. On December 15, 2017, the Court dismissed the plaintiffs’ first amendment to the class action compliant (“FAC”), with leave to amend. On December 20, 2017, the parties stipulated, and the Court extended, the plaintiffs time to amend the FAC up to January 19, 2018. As of January 19, 2018, the plaintiff never filed an amended complaint and the Court dismissed the lawsuit with prejudice on January 29, 2018. On February 28, 2018, the plaintiff filed a notice of appeal, on the motion to dismiss, to the 9th Circuit Court of Appeals.

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We are not at this time involved in any legal proceedings that we believe could have a material effect on our business, financial condition, results of operations or cash flows.

Item 4. Mine Safety Disclosures.

Not applicable.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

The following tables set forth, for the calendar quarter indicated, the quarterly high and low sale prices of our common stock, respectively, as reported on the NYSE-MKT.

Common Stock

Quarter ended	High	Low
December 31, 2017	$2.45	$1.90
September 30, 2017	$2.30	$1.65
June 30, 2017	$2.30	$1.20
March 31, 2017	$2.60	$2.00
December 31, 2016	$2.80	$1.55
September 30, 2016	$3.48	$2.34
June 30, 2016	$3.67	$2.52
March 31, 2016	$3.75	$2.66

Holders of Common Equity

As of March 2, 2018, we had approximately 322 stockholders of record of our common stock. This does not include beneficial owners of our common stock. None of our preferred stock is issued or outstanding.

Dividends

We have not paid any dividends on our common stock in the two most recent fiscal years. 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 facility, we are limited in our ability to pay dividends. Our Board of Directors does not anticipate declaring any dividends in the foreseeable future.

Common Share Repurchase Program

On March 12, 2018, our Board of Directors approved a stock repurchase program authorizing the Company to repurchase up to 1 million shares of the Company’s outstanding stock. The repurchase program will be subject to market conditions, the periodic capital needs of the Company’s operating activities, and the continued satisfaction of all covenants under the Company’s existing credit agreement. Repurchases under the program may take place in the open market or in privately negotiated transactions, and may be made under a Rule 10b5-1 plan. The repurchase program does not obligate the Company to repurchase shares and may be suspended, terminated, or modified at any time. For the years ending December 31, 2017 and 2016, respectively, no shares were repurchased under this program.

Shares Forgone to Satisfy Minimum Statutory Withholdings

During the years ended December 31, 2017 and 2016, shares of common stock were issued to employees and directors as their restricted stock awards vested or stock options were exercised. Under the terms of our stock plans, at the election of each employee, we can authorize a net settlement of distributable shares to employees after satisfaction of an individual employees' tax withholding obligations. For the years ended December 31, 2017 and 2016, respectively, we received less than 0.1 million shares from employees for tax withholding obligations.

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During the year ended December 31, 2017, we acquired and cancelled shares of common stock surrendered by employees to pay income taxes due upon the vesting of restricted stock as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
February 6, 2017	7,886	$ 2.78	N/A	N/A
April 19, 2017	9,460	2.30	N/A	N/A
May 3, 2017	3,465	2.20	N/A	N/A
Total	20,811	$ 2.47	N/A	N/A

During the year ended December 31, 2016, we acquired and cancelled shares of common stock surrendered by employees to pay income taxes due upon vesting of restricted stock as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as	Maximum Number (or Approximate Dollar Value) of

			Part of Publicly Announced Plans or Programs	Shares that May Yet Be Purchased Under the Plans or Programs
March 9, 2016	11,373	$ 2.90	N/A	N/A
July 5, 2016	798	3.26	N/A	N/A
July 7, 2016	5,111	3.25	N/A	N/A
Total	17,282	$ 3.02	N/A	N/A

Unregistered Sales of Equity Securities

We did not sell any unregistered securities during the fiscal year ended December 31, 2017.

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Equity Compensation Plan Information

See Part III, Item 12 to this Form 10-K for information relating to securities authorized for issuance under our equity compensation plans.

Stock Performance Graph

InfuSystem 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.

Item 6. Selected Financial Data.

InfuSystem 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.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in this Form 10-K. The forward-looking statements included in this discussion and elsewhere in this Form 10-K involve risks and uncertainties, including those set forth under "Cautionary Statement About Forward-Looking Statements." Actual results and experience could differ materially from the anticipated results and other expectations expressed in our forward-looking statements as a result of a number of factors, including but not limited to those discussed in this Item and in Item 1A - "Risk Factors."

Overview

We are a leading provider of infusion pumps and related products and services for patients in the home, oncology clinics, ambulatory surgery centers, and other sites of care from six locations in the United States and Canada. We provide our products and services to hospitals, oncology practices and facilities and other alternate site health care 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, Texas, Georgia and Ontario, Canada. ISI is accredited by the CHAP while First Biomedical is ISO certified.

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 and other disease states. Colorectal cancer is the third most prevalent form of cancer in the United States, according to the American Cancer Society, and the standard of care for the treatment of colorectal cancer relies upon continuous chemotherapy infusions delivered via ambulatory infusion pumps.

In addition, 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. We also provide these products and services to customers in the small-hospital market.

We purchase new and pre-owned pole mounted and ambulatory infusion pumps from a variety of sources on a non-exclusive basis. We repair, refurbish and provide biomedical certification for the devices as needed. The pumps are then available for sale, rental or to be used within our ambulatory infusion pump management service.

We view our payor environment as changing. Management is intent on extending its considerable breadth of payor contracts as patients move into different insurance coverages, including Medicaid and Insurance Marketplace products. In some cases, this may slightly reduce our aggregate billed revenues payment rate but result in an overall increase in collected revenues, effectively lessening bad debt expense on a micro level, but due to the mix of all payors may not have an impact on overall bad debt expense. Consequently, we are increasingly focused on net collected revenues less bad debt.

In the midst of changes in the healthcare arena, we believe that we will support our overall business strategy discussed above by (i) focusing on supporting recurring revenues by increasing our pump fleet; (ii) improving liquidity and strengthening the balance sheet by keeping debt levels comparable to our operations; (iii) improving internal operational efficiencies; (iv) increasing our product and services offerings; (v) enhancing our technology offerings to the patients and providers of care; and (vi) investigating synergistic acquisitions.

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For additional information pertaining to CMS, refer to Item 1 – Business – Significant Customers and also Regulation of Our Business.

Key Business Metrics

Our management monitors a number of financial and non-financial measures and ratios on a regular basis in order to track the progress of our business and make adjustments as necessary. We believe that the most important of these measures and ratios include net revenues, gross margin, operating margin, net income, cash and cash equivalents, and debt levels including available credit and leverage ratios. These measures and ratios are compared to standards or objectives set by management, so that actions can be taken, as necessary, in order to achieve the standards and objectives.

InfuSystem Holdings, Inc. Results of Operations for the Year ended December 31, 2017 compared to the Year ended December 31, 2016

Revenues

Net Revenues – Net revenues for the fiscal year ended December 31, 2017 were $71.1 million, which was an increase compared to the prior year's net revenues of $70.5 million, primarily due to an increase in Product Sales partially offset by a decrease in rentals.

Rentals – Decreased $1.1 million, or 2%, compared to the prior year. During the second half of 2016, the Company implemented SE1609 from CMS, which resulted in our rental revenues being reduced by approximately $2.6 million for 2017 when compared to 2016, and this decrease in 2017 was partially offset by increases of approximately $1.5 million, primarily related to the addition of larger customers and increased penetration into our existing commercial payor base, which generally have higher net revenue rates than non-commercial payors. This is also evidenced by our increase in third-party payor networks from 450 to 520, or 15%, compared to the prior year. We view our payor environment as changing. Management is intent on extending its considerable breadth of payor contracts as patients move into different insurance coverages, including Medicaid and Insurance Marketplace products. In some cases, this may slightly reduce our aggregate billed revenues payment rate but result in an overall increase in collected revenues.

Product Sales - Increased $1.7 million, or 21%, compared to the prior year. This increase was largely due to an

increase of $1.4 million in the sales of disposable products and a $0.2 million increase in the sales of pumps.

A substantial portion of our contracted payor revenues have been dependent on one payor or a limited concentration of payors. In particular for 2017, our largest contracted payor was a national association comprised of multiple members, which in the aggregate, accounted for approximately 24% of our net revenues from our Oncology Business and approximately 13% of our total revenues for the year ended December 31, 2017, respectively. For 2017, our next largest contracted payor was a national association comprised of multiple members, which, in the aggregate, accounted for approximately 6% of our net revenues from our Oncology Business and approximately 6% of our total revenues for the year ended December 31, 2017, respectively. For 2016, our largest contracted payor was Medicare, which accounted for approximately 21% of our net revenues from our Oncology Business and approximately 13% of our total revenues for the year ended December 31, 2016, respectively. Our next largest contracted payor, was a national association comprised of multiple members, which, in the aggregate, accounted for approximately 19% of our net revenues from our Oncology Business and approximately 13% of our total revenues for the year ended December 31, 2016, respectively. The implementation of SE1609 resulted in our revenues being reduced by approximately $2.6 million for 2017 when compared to 2016. We also contract with various other third-party payor organizations, Medicaid, commercial Medicare replacement plans, self-insured plans and numerous other insurance carriers. Other than the payors noted above, no other single payor represented more than 10% of third-party payor net revenue. To the extent such dependency continues, significant fluctuations in revenues, results of operations and liquidity could arise if any other significant contracted payor reduces its reimbursement for the services we provide.

Gross Profit - Decreased $1.4 million, or 3%, compared to the prior year. The decrease in gross profit for 2017 was largely attributable to the increase in net revenues of $0.6 million for the period offset by an increase in cost of revenues – product, service and supply costs of $2.2 million, broken down as supplies and material costs of $0.6 million, service costs of $0.4 million and disposable costs of $1.2 million and a decrease in cost of revenues - pump depreciation, sales and disposals of $0.2 million, broken down as $0.3 million in equipment disposals offset by an increase of $0.1 million in equipment depreciation and other. Gross profit as a percentage of net revenues decreased to 61% compared to the prior year at 63%.

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Provision for Doubtful Accounts – Remained consistent compared to the prior year at $5.6 million. For 2017, we had a general increase in bad debt due to a change in our billing structure in the second half of 2016 for a large payor, however, this increase was offset by the Company's increased number of third-party payor contracts, which have increased from 450 to 520, or 15%, that are now being billed at in-network rates with lower rates of bad debt, whereby previous insurance billings were billed at higher out-of-network rates and higher rates of bad debt. Bad debt is primarily associated with rental revenues.

We view our payor environment as rapidly changing. Management is intent on continuing to extend its considerable breadth of payor contracts as patients move into different insurance coverages, including Medicaid and Insurance Marketplace products. As of December 31, 2017, we had more than 520 third-party payor networks under contract. In some cases, this may slightly reduce our aggregate billed revenues payment rate but result in an overall increase in collected revenues, as shown by a reduction in bad debt expense. Consequently, we are increasingly focused on net collected revenues less bad debt.

Amortization of Intangible Assets – Increased $1.7 million compared to the prior year. This increase was largely attributable to the completion of several IT projects, in turn increasing the related amortization.

Asset Impairment Charges – Increased $1.0 million compared to the prior year. This increase was due to some internally developed, internal-use software projects that were determined by management to be obsolete or no longer in use in 2017.

Selling and Marketing Expenses - For the year ended December 31, 2017, our selling and marketing expenses increased to $9.8 million, or 1%, compared to December 31, 2016 and remained consistent as a percentage of net revenues compared to the prior year at 14%. The increase of $0.1 million was largely due to an increase in salaries, benefits and related expenses of $0.4 million, which was partially offset by a decrease in travel expenses of $0.2 million and advertising of $0.1 million. Selling and marketing expenses during these years consisted of sales personnel salaries, commissions and associated fringe benefit and payroll-related items, marketing, share-based compensation, travel and entertainment and other miscellaneous expenses.

General and Administrative Expenses – General and administrative ("G&A") expenses during 2017 and 2016 consisted primarily of accounting, administrative, third-party payor billing and contract services, customer service, nurses on staff, new product services, and service center personnel salaries, fringe benefits and other payroll related items, professional fees, legal fees, stock-based compensation, insurance and other miscellaneous items. During the year ended December 31, 2017, our G&A expenses were $25.2 million, an increase of 2% from $24.6 million for the year ended December 31, 2016. The increase in G&A expenses versus the same prior year period was mainly attributable to increases in outside services of $0.5 million, stock based expenses of $0.2 million and dues and subscriptions of $0.1 million partially offset by telephone of $0.1 million and consulting of $0.1 million. The Company has brought in-house certain services previously performed by outside advisors and contractors, including tax and information

technology.

The following table includes additional details regarding our G&A expenses for the years ended December 31 (in thousands):

	2017	2016	Difference
Strategic alternatives and other costs (a)	160	304	(144)
Restatement costs	28	394	(366)
Early termination fees for capital leases	292	-	292
Shareholder legal costs	200	-	200
Management reorganization	737	153	584
Stock based compensation	682	462	220
Total	2,099	1,313	786
G&A - other than one-time costs & stock based comp	23,101	23,316	(215)
G&A - Total	$25,200	$24,629	$ 571

(a) Strategic costs - For 2017, we recorded expenses associated with other strategic opportunity costs of $160,000. Strategic costs for 2016 were attributable to the acquisition, transition and integration of Ciscura of $177,000 and $280,000 was due to other strategic opportunity costs.

Other Income and Expenses - During the year ended December 31, 2017, we recorded interest expense of $1.3 million, which was consistent with the prior year's interest expense of $1.3 million.

Provision for Income Taxes - During the year ended December 31, 2017, we recorded an income tax expense of $15.5 million compared to an income tax benefit of $0.1 million for the year ended December 31, 2016. The effective tax rate for the year ended December 31, 2017 was negative 293.89% compared to 39.1% for the year ended December 31, 2016. The decrease in effective tax rate was primarily due to recording $5.6 million in net deferred tax assets in connection with the 2017 Tax Cuts and Jobs Act due to the cumulative effect of changes in the federal tax rate to 21% from the previously used 34% in determining our net deferred tax assets. In addition, as of December 31, 2017, management assessed the available positive and negative evidence regarding the recovery of our net deferred tax assets. As a result of this assessment, it was determined it was more likely than not that the Company will not recognize the benefits of its federal and state net deferred tax assets and recorded an $11.4 million valuation allowance against these net deferred tax assets. Refer to the discussion under "Summary of Significant Accounting Policies — Income Taxes" included in Note 2 and "Income Taxes" included in Note 7 to our Consolidated Financial Statements included in this Form 10-K.

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Inflation - Management believes that there has been no material effect on our results of operations or financial condition as a result of inflation or changing prices of our ambulatory infusion pumps during the period from January 1, 2016 through December 31, 2017.

Liquidity and Capital Resources

Overview:

We finance our operations and capital expenditures with internally generated cash from operations. During the three and twelve months ended December 31, 2017, we generated enough positive cash flow to reduce our debt by $1.2 million and $8.5 million, respectively. As of December 31, 2017, we had cash and cash equivalents of $3.5 million and $9.2 million of availability on our revolving credit facility compared to $3.4 million of cash and cash equivalents and $9.9 million of availability on our revolving credit facility at December 31, 2016. Our liquidity and borrowing plans are established to align with our financial and strategic planning processes and ensure we have the necessary funding to meet our operating commitments, which primarily include the purchase of pumps, inventory, payroll and general expenses. We also take into consideration our overall capital allocation strategy which includes investment for future growth and acquisitions and share repurchases. We believe we have adequate sources of liquidity and funding available for at least the next year, however, there are a number of factors that may negatively impact our available sources of funds. The amount of cash generated from operations will be dependent upon factors such as the successful execution of our business plan and general economic conditions.

Long-Term Debt Activities:

On March 23, 2015, the Company and its direct and indirect subsidiaries entered into a credit agreement with JPMorgan Chase Bank, N.A., as lender (the "Chase Credit Agreement"). The Chase Credit Agreement originally provided for a Credit Facility consisting of a $27.0 million Term Loan A, up to $8.0 million Term Loan B and a $10.0 million revolving credit facility and a maturity date of March 23, 2020. The Credit Facility is collateralized by substantially all of our assets and shares of our subsidiaries and requires us to comply with certain covenants, including but not limited to, financial covenants relating to the satisfaction, on a quarterly and annual basis for the duration of the Credit Facility, of a total leverage ratio, a fixed charge coverage ratio and a net worth level.

On December 5, 2016, we entered into a First Amendment to the Chase Credit Agreement to waive certain events of default then existing thereunder, as well as to make certain amendments to the Credit Facility, including but not limited to: (i) restructuring of the Credit Facility that effectively consolidated Term Loan A and Term Loan B into a new single term loan (“Term Loan”) resulting in a new total drawn amount of $32 million under the Term Loan with the approximately $5 million excess over the current aggregate drawn amounts under Term Loan A and Term Loan B to

be available to reduce the Company’s drawings under the revolving credit line under the Credit Facility; (ii) extending the maturity date of the Term Loan and the revolving credit line to December 5, 2021; (iii) setting the quarterly mandatory principal payment due on the Term Loan to $1.3 million due on the last business day of each fiscal quarter with any remaining unpaid and outstanding amount due at maturity; and (iv) amending the leverage ratio covenant to provide for the following schedule of maximum permitted ratios: (a) 2.75 to 1.0 at any time on or after December 31, 2015 but prior to March 31, 2017, (b) 2.50 to 1.0 at any time on or after March 31, 2017 but prior to March 31, 2018 or (c) 2.25 to 1.00 at any time on or after March 31, 2018.

On March 22, 2017, we entered into a Second Amendment to the Chase Credit Agreement to make certain amendments to the Credit Facility, including but not limited to: (i) amending the definition of "Fixed Charges" to increase the Company's ability to prepay its indebtedness under the Credit Facility without negatively impacting its financial covenants; and (ii) amending the leverage ratio covenant to provide for the following schedule of maximum permitted ratios: (a) 2.75 to 1.0 at any time on or after December 31, 2015 but prior to March 31, 2018, (b) 2.50 to 1.0 at any time on or after March 31, 2018 but prior to March 31, 2019 or (c) 2.25 to 1.00 at any time on or after March 31, 2019.

As of March 31, 2017, we breached a financial covenant under our Credit Facility, which resulted in an event of default under the Credit Facility. Specifically, we were not in compliance with the leverage ratio covenant under the Credit Facility. The required maximum leverage ratio under the Credit Facility as of March 31, 2017 was 2.75 compared to an actual ratio of 2.96. We subsequently received a waiver from this breach from the lender on May 10, 2017, which provided a limited, specific and one-time waiver from this breach but did not otherwise modify the terms of the Credit Facility. No fee was paid to the lender in connection with this waiver.

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On June 28, 2017, we entered into a Third Amendment to the Chase Credit Agreement to make certain amendments to the Credit Facility, including but not limited to:

(i) amendment of the chart within the definition of "Applicable Rate" in Section 1.01 of the Chase Credit Agreement to read as follows:

Leverage Ratio	CBFR Spread	Eurodollar Spread	Commitment Fee Rate
Level I < 1.5:1.0	- 1.00%	2.00%	0.25%
Level II < 2.0:1.0 to 1.0 but ≥ 1.5:1.0	-0.75%	2.25%	0.25%
Level III < 2.5:1.0 to 1.0 but ≥ 2.0:1.0	- 0.50%	2.50%	0.25%
Level IV < 3.0:1.0 to 1.0 but ≥ 2.5:1.0	0.00%	2.75%	0.25%
Level V ≥ 3.0:1.0	0.25%	3.00%	0.25%

and further amendment of the definition of "Applicable Rate" in Section 1.01 of the Chase Credit Agreement by adding the following to the end thereof: "The Applicable Rate will be set at Level V as of the Third Amendment Effective Date, and adjusted for the first time thereafter based on the financial statements required to be delivered hereunder for the fiscal quarter ending June 30, 2017.";

(ii) amendment of the definition of "Fixed Charge Coverage Ratio" in Section 1.01 of the Chase Credit Agreement by adding the phrase "(it is acknowledged that, at all times, such unfinanced portion is either a deduction to EBITDA or, if unfinanced portion is ever interpreted to be a negative number, then zero)" to follow the phrase therein that reads "means, for any period, the ratio of (a) EBITDA minus the unfinanced portion of Capital Expenditures.";

(iii) amendment of clause (f)(ii) in the definition of "Permitted Acquisition" in Section 1.01 of the Chase Credit Agreement by (a) replacing the reference therein to "$10,000,000" with "$5,000,000" and (b) by replacing the reference therein to "$25,000,000" with "$12,500,000.";

(iv) addition of the following definition of "Excess Cash Flow" to Section 1.01 of the Chase Credit Agreement as follows:

"Excess Cash Flow" means, for any fiscal year of the Company, (a) EBITDA for such fiscal year, minus (b) Capital Expenditures made or incurred during such fiscal year minus (c) Fixed Charges for such fiscal year.

(v) amendment of Section 2.08(b) of the Chase Credit Agreement to read as follows:

(b) The Borrowers hereby unconditionally agree that the Term A Loans and the Term B Loans shall be replaced and refinanced in full as of the First Amendment Effective Date with a Term Loan in an aggregate amount equal to $32,000,000 made under Section 2.01(d), the Borrowers acknowledge and agree that the principal balance of such Term Loan as of the Third Amendment Effective Date is $30,665,999.98, and the Borrowers hereby unconditionally promise to pay to the Lender the principal amount of the Term Loans made under Section 2.01(d) after the Third Amendment Effective Date as follows: (i) on June 30, 2017, September 30, 2017 and December 31, 2017 in principal installments each in the amount of $577,500 (as adjusted from time to time pursuant to Section 2.09(d) or 2.16(b)), (ii) commencing with the last Business Day of March, 2018 and on the last Business Day of each March, June, September and December thereafter, in consecutive quarterly principal installments each in the amount of $766,650 (as adjusted from time to time pursuant to Section 2.09(d) or 2.16(b)) and (iii) to the extent not previously paid, all unpaid Term Loans shall be paid in full in cash by the Borrowers on the Term Maturity Date.

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(vi) amendment of Section 2.09(d) of the Chase Credit Agreement to read as follows:

(d) All prepayments required to be made pursuant to Section 2.09(c) shall be applied, first to prepay the Term Loans (and in the event Term Loans of more than one Class shall be outstanding at the time, shall be allocated among the Term Loans pro rata based on the aggregate principal amounts of outstanding Term Loans of each such Class), and such prepayments of the Term Loans shall be applied to reduce the remaining scheduled repayments of Term Loans of each Class in the inverse order of maturity (with any prepayments applied first to the payment at final maturity), second to prepay the Revolving Loans without a corresponding reduction in the Revolving Commitment and third to cash collateralize outstanding LC Exposure. Within each such category, such prepayments shall be applied first to CBFR Loans and then to Eurodollar Loans in order of Interest Period maturities (beginning with the earliest to mature).

All prepayments required to be made pursuant to Section 2.09(f) shall be applied, first to prepay the Revolving Loans without a corresponding reduction in the Revolving Commitment, second to prepay the Term Loans (and in the event Term Loans of more than one Class shall be outstanding at the time, shall be allocated among the Term Loans pro rata based on the aggregate principal amounts of outstanding Term Loans of each such Class), and such prepayments of the Term Loans shall be applied to reduce the remaining scheduled repayments of Term Loans of each Class in the inverse order of maturity (with any prepayments applied first to the payment at final maturity), and third to cash collateralize outstanding LC Exposure. Within each such category, such prepayments shall be applied first to CBFR Loans and then to Eurodollar Loans in order of Interest Period maturities (beginning with the earliest to mature).

(vii) addition of a new Section 2.09(f) to the Chase Credit Agreement as follows:

(f) Until the latest of the Revolving Credit Maturity Date, the Term A Maturity Date, the Term B Maturity Date or the Term Maturity Date, as the case may be, the Borrowers shall prepay the Obligations as set forth in Section 2.09(d) on the date that is ten days after the earlier of (i) the date on which the Company's annual audited financial statements for the immediately preceding fiscal year are delivered pursuant to Section 5.01 or (ii) the date on which such annual audited financial statements were required to be delivered pursuant to Section 5.01, in an amount equal to: (I) seventy-five percent (75%) of the Company's Excess Cash Flow for the immediately preceding fiscal year if the Company's Leverage Ratio is greater than or equal to 2.5 to 1.0 for the immediately preceding fiscal year, (II) fifty percent (50%) of the Company's Excess Cash Flow for the immediately preceding fiscal year if the Company's Leverage Ratio is less than 2.5 to 1.0 but greater than or equal to 2.0 to 1.0 for the immediately preceding fiscal year, or (III) zero percent (0%) of the Company's Excess Cash Flow for the immediately preceding fiscal year if the Company's Leverage Ratio is less than 2.0 to 1.0 for the immediately preceding fiscal year. Each Excess Cash Flow prepayment shall be accompanied by a certificate signed by a Financial Officer of the Company certifying the manner in which Excess Cash Flow and the resulting prepayment was calculated, which certificate shall be in form and substance satisfactory to the Lender.

(viii) amendment of Section 6.04(c) of the Chase Credit Agreement by replacing the reference therein to "$5,000,000" with "$2,500,000.";

(ix) amendment of Sections 6.12(a) and (b) of the Chase Credit Agreement to read as follows:

(a) Leverage Ratio. The Borrowers will not permit the Leverage Ratio to exceed (i) 4.0 to 1.0 at any time on or after the Effective Date but prior to December 31, 2017, (ii) 3.75 to 1.0 at any time on or after December 31, 2017 but prior to June 30, 2018, (iii) 3.50 to 1.0 at any time on or after June 30, 2018 but prior to December 31, 2018, or (iv) 3.00 to 1.00 at any time on or after December 31, 2018.

(b) Fixed Charge Coverage Ratio. The Borrowers will not permit the Fixed Charge Coverage Ratio to be less than (i) 1.15:1.0 at any time on or after the Effective Date but prior to March 31, 2018, or (ii) 1.25:1.0 at any time on or after March 31, 2018.

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As of December 31, 2017, we were in compliance with all such covenants.

Simultaneous with the execution of Third Amendment, we entered into a Patent and Trademark Security Agreement, which replaces the Patent and Trademark Security Agreement entered into on March 23, 2015 at the time we entered into the original Chase Credit Agreement. The new Patent and Trademark Security Agreement was revised to make reference to the Third Amendment and we have provided the Lender with updated schedules listing our trademarks, patents, applications for trademarks and patents, and other intellectual properties owned or licensed.

As a result of the changes to the definition of 'Leverage Ratio" and "Fixed Charge Coverage Ratio" within the Third Amendment, we will have increased flexibility to effect the changes necessary to return us to a strong financial position. The change to the definition of "Applicable Rate" will effectively increase our interest rate under the Chase Credit Agreement by 50 basis points in the near term, while allowing for us to reduce that rate as our Leverage Ratio declines. The addition of the provision that requires the prepayment of a percentage of our annual "Excess Cash Flow" will ensure our primary goal remains to reduce the total debt outstanding.

As of December 31, 2017, the Company's Term Loan under the Credit Facility had a balance of $28.5 million. The availability under the revolving credit line under the Credit Facility is based upon our eligible accounts receivable and eligible inventory and is computed as follows (in thousands):

	December 31, 2017	**December 31, 2016**
Revolver:		
Gross Availability	$ 10,000	$ 10,000
Outstanding Draws	-	-
Letter of Credit	(750)	-
Landlord Reserves	(45)	(45)
Availability on Revolver	$ 9,205	$ 9,955

As of December 31, 2017, interest on the Credit Facility is payable at our option as a (i) Eurodollar Loan, which bears interest at a per annum rate equal to LIBOR Plus a margin ranging from 2.00% to 3.00% or (ii) CBFR Loan, which bears interest at a per annum rate equal to the greater of (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 -1.00% to 0.25%. The actual rate at December 31, 2017 was 4.32% (LIBOR of 1.57% plus 2.75%).

As discussed above, on March 12, 2018, our Board of Directors approved a stock repurchase program authorizing the Company to repurchase up to 1 million shares of the Company's outstanding stock. The repurchase program will be

subject to market conditions, the periodic capital needs of the Company's operating activities, and the continued satisfaction of all covenants under the Company's existing credit agreement. As of March 5, 2018, we had availability of $9.2 million under our Credit Facility, which a portion could be used to fund stock repurchases, subject to the restrictions and limitations of our Chase Credit Agreement. The repurchase program does not obligate the Company to repurchase shares and may be suspended, terminated, or modified at any time.

Cash Flows:

Operating Cash Flow. Net cash provided by operating activities for the year ended December 31, 2017 was $7.6 million compared to $7.9 million for the year ended December 31, 2016. The decrease was primarily attributable to the cash flow effects of the changes in net losses were partially offset by the impact of non-cash transactions, including amortization and deferred income taxes and also the change in liabilities.

Investing Cash Flow. Net cash provided by investing activities was $1.1 million for the year ended December 31, 2017 compared to cash used of $5.3 million for the year ended December 31, 2016. The increase in cash provided was primarily related to a decrease of $3.3 million for the purchases of intangible assets, mainly IT related assets, a $1.8 million decrease in the purchases of medical equipment and a $0.8 million increase in the proceeds from the sale of medical equipment.

Financing Cash Flow. Net cash used in financing activities for the year ended December 31, 2017 was $8.6 million compared to cash proceeds of less than $0.1 million for the year ended December 31, 2016. This change is primarily attributable to the cash proceeds received as a result of our decision to borrow from the revolving credit line under our Credit Facility during 2016, as well as, our decision to pay down a majority of our capital lease obligations during the first half of 2017.

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We periodically enter 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. The weighted average interest rate under capital leases was 3.6% as of December 31, 2017.

Contractual Obligations

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

Contingent Liabilities

We are not aware of 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 accounting principles generally accepted in the United States of America 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; sales return allowances; inventory reserves; long lived assets; intangible assets valuations; and income tax valuations. Management relies on historical experience and other assumptions believed to be reasonable in making its judgment and estimates. Actual results could differ materially from those estimates.

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

Our accounting policies are more fully described under the heading “Summary of Significant Accounting Policies” in Note 2 to our Consolidated Financial Statements included in this 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, and billing the oncology practice, or the third-party payor (“TPP”) or alternative site setting when persuasive evidence of an arrangement exists; services have been rendered; the price to the customer is fixed or determinable; and collectability is reasonably assured. Persuasive evidence of an arrangement is determined to exist, and collectability is reasonably assured, when the Company (i) receives a physician’s written order and assignment of benefits, signed by the physician and patient, respectively, (ii) has verified actual pump usage via a patient treatment log (“PTL”) and insurance coverage and (iii) receives 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 while billings made directly to an oncology practice and alternative site setting are recorded at a pre-determined amount with any uncollectible amount is recorded as bad debt expense in general & administrative expenses. We perform an analysis to estimate sales returns and records an allowance for returns when the related sale is recognized. 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.

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As of December 31, 2017, we had contracts with more than 520 third-party payor networks, an increase of 70 networks, or 15%, over the prior year period. Material terms of contracts with third-party payor organizations are typically a set fee or rate, or a discount from billed charges for equipment provided. The majority of these contracts generally provide for a term of one year, with automatic one-year renewals, unless we or the contracted payor elect not to renew. For 2017, our largest contracted payor was a national association comprised of multiple members, which in the aggregate, accounted for approximately 24% of our net revenues from our Oncology Business and approximately 13% of our total revenues for the year ended December 31, 2017, respectively. For 2017, our next largest contracted payor, was a national association comprised of multiple members, which, in the aggregate, accounted for approximately 6% of our net revenues from our Oncology Business and approximately 6% of our total revenues for the year ended December 31, 2017, respectively.

For 2016, our largest contracted payor was Medicare, which accounted for approximately 21% of our net revenues from our Oncology Business and approximately 13% of our total revenues for the year ended December 31, 2016, respectively. Our next largest contracted payor, was a national association comprised of multiple members, which, in the aggregate, accounted for approximately 19% of our net revenues from our Oncology Business and approximately 13% of our total revenues for the year ended December 31, 2016, respectively. The implementation of SE1609 resulted in our revenues being reduced by approximately $2.6 million for 2017 when compared to 2016.

We also contract with various other third-party payor organizations, Medicaid, commercial Medicare replacement plans, self-insured plans and numerous other insurance carriers. Other than the payors noted above, no other single payor represented more than 10% of third-party payor net revenue. To the extent such dependency continues, significant fluctuations in revenues, results of operations and liquidity could arise if any other significant contracted payor reduces its reimbursement for the services we provide.

Accounts Receivable, Allowance for Doubtful Accounts and Contractual Allowances

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 value. 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. We record an allowance for doubtful accounts and contractual allowance (to reduce gross billed charges to a contractual or estimated net realizable value from third-party payors) based on management’s assessment of historical and expected 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 for doubtful accounts for patients or the contractual allowance for third-party payors. Our allowance for doubtful accounts and contractual allowance are a reduction to accounts receivable on our consolidated financial position. Additions to the contractual allowance each period offset gross billed charges, which are not publicly reported in our filings, to arrive at net revenue, which is publicly reported in our consolidated results of operations. Additions to the allowance for doubtful accounts, however, impact the bad debt expense line item of our consolidated results of operations.

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 a material impact on our consolidated business, financial position, results of operations and cash flows.

Income Taxes

We recognize deferred income tax liabilities and assets based on (i) 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 and (ii) the tax credit carry forwards. 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.

Provisions for federal, state and foreign taxes are calculated based on reported pre-tax earnings based on current tax law and include the cumulative effect of any changes in tax rates from those used previously in determining deferred tax assets and liabilities. Certain items of income and expense are recognized in different time periods for financial reporting than for income tax purposes; thus, such provisions differ from the amounts currently receivable or payable.

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We estimate the impact of uncertain income tax positions on the income tax return. These estimates impact income taxes receivable, accounts payable and accrued liabilities on the balance sheet and provision for income taxes on the income statement. We follow a two-step approach for recognizing uncertain tax positions. First, management evaluates the tax position for recognition by determining if the weight of available evidence indicates it is more-likely-than-not that the position will be sustained upon examination. Second, for positions that are determined are more-likely-than-not to be sustained, we recognize the tax benefit as the largest benefit that has a greater than 50% likelihood of being sustained. We establish a reserve for uncertain tax positions liability that is comprised of unrecognized tax benefits and related interest and penalties. We adjust this liability in the period in which an uncertain tax position is effectively settled, the statute of limitations expires for the relevant taxing authority to examine the tax position, or more information becomes available. For more information, refer to the “Income Taxes” discussion included in Note 7 in the Notes to the Consolidated Financial Statements included in this Form 10-K.

Intangible Asset Valuation

We evaluate the carrying value of long-lived assets for impairment by analyzing the operating performance and anticipated future cash flows for those assets, whenever events or changes in circumstances indicate that the carrying amounts of such assets may not be recoverable. We evaluate the need to adjust the carrying value of the underlying assets if the sum of the expected cash flows is less than the carrying value. Our projection of future cash flows, the level of actual cash flows, the methods of estimation used for determining fair values and salvage values can impact impairment. Any changes in management’s judgments could result in greater or lesser annual depreciation and amortization expense or impairment charges in the future. Depreciation and amortization of long-lived assets is calculated using the straight-line method over the estimated useful lives of the assets.

We performed our annual impairment analysis in October 2017 and determined that the fair value of all indefinite-lived assets was greater than the carrying value, resulting in no impairment of indefinite-lived assets.

We also performed an impairment analysis in December 2017 related to our internally developed, internal-use software, specifically looking at the effectiveness and useful lives of each project and sub-project. It was determined that certain projects and sub-projects were no longer viable and did not provide any further service potential. This resulted in an impairment of approximately $1.0 million in 2017.

For more information, refer to the “Intangible Assets” discussion included in Note 5 in the Notes to the Consolidated Financial Statements included in this Form 10-K.

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

InfuSystem 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

Shareholders and Board of Directors

InfuSystem Holdings, Inc.

Madison Heights, Michigan

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of InfuSystem Holdings, Inc. and subsidiaries (the "Company") as of December 31, 2017 and 2016, the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and subsidiaries at December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended**,** in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting 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.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/BDO USA, LLP

We have served as the Company's auditor since 2013.

Troy, Michigan

March 19, 2018

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INFUSYSTEM HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)	**December 31, 2017**	**December 31, 2016**
ASSETS		
Current Assets:		
Cash and cash equivalents	$ *3,469*	$ *3,398*
Accounts receivable, less allowance for doubtful accounts of $6,514 and $4,989 at December 31, 2017 and 2016, respectively	*11,385*	*11,581*
Inventories	*1,764*	*2,166*
Other current assets	*1,049*	*949*
Deferred income taxes	*-*	*2,675*
Total Current Assets	*17,667*	*20,769*
Medical equipment held for sale or rental	*1,567*	*1,642*
Medical equipment in rental service, net of accumulated depreciation	*23,369*	*28,036*
Property & equipment, net of accumulated depreciation	*1,633*	*1,997*
Intangible assets, net	*24,514*	*31,239*
Deferred income taxes	*-*	*12,436*
Other assets	*131*	*225*
Total Assets	$ *68,881*	$ *96,344*
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ *5,516*	$ *5,315*
Capital lease liability, current	*505*	*2,938*
Current portion of long-term debt	*3,039*	*5,314*
Other current liabilities	*3,414*	*2,872*
Total Current Liabilities	*12,474*	*16,439*
Long-term debt, net of current portion	*25,352*	*26,577*
Capital lease liability, long-term	*33*	*2,573*
Deferred income taxes	*62*	*-*
Other long-term liabilities	*7*	*66*
Total Long-Term Liabilities	*25,454*	*29,216*
Total Liabilities	*37,928*	*45,655*
Stockholders' Equity:		
Preferred stock, $.0001 par value: authorized 1,000,000 shares; none issued	-	-