

ICU MEDICAL INC/DE  
Form 10-Q  
November 10, 2014

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q

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

For the quarterly period ended: September 30, 2014

Or

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

For the transition period from: to

Commission File No.: 0-19974  
ICU MEDICAL, INC.  
(Exact name of Registrant as specified in its charter)

|                                                                   |                                         |
|-------------------------------------------------------------------|-----------------------------------------|
| Delaware                                                          | 33-0022692                              |
| (State or other jurisdiction of<br>incorporation or organization) | (I.R.S. Employer<br>Identification No.) |
| 951 Calle Amanecer, San Clemente, California                      | 92673                                   |
| (Address of principal executive offices)                          | (Zip Code)                              |
| (949) 366-2183                                                    |                                         |
| (Registrant's telephone number including area code)               |                                         |

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

|                                                             |                                                    |
|-------------------------------------------------------------|----------------------------------------------------|
| Large accelerated filer <input checked="" type="checkbox"/> | Accelerated filer <input type="checkbox"/>         |
| Non-accelerated filer <input type="checkbox"/>              | Smaller reporting company <input type="checkbox"/> |

(Do not check if a smaller reporting company)

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

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|        |                                 |
|--------|---------------------------------|
| Class  | Outstanding at October 21, 2014 |
| Common | 15,365,170                      |

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

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ICU Medical, Inc.

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## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements (Unaudited)

ICU Medical, Inc. and Subsidiaries  
Condensed Consolidated Balance Sheets  
(Amounts in thousands, except per share data)

|                                                                                                                                                                                                                                      | September 30,<br>2014<br>(unaudited) | December 31,<br>2013<br>(1) |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|-----------------------------|
| <b>ASSETS</b>                                                                                                                                                                                                                        |                                      |                             |
| <b>CURRENT ASSETS:</b>                                                                                                                                                                                                               |                                      |                             |
| Cash and cash equivalents                                                                                                                                                                                                            | \$252,241                            | \$226,022                   |
| Investment securities                                                                                                                                                                                                                | 77,503                               | 70,869                      |
| Cash, cash equivalents and investment securities                                                                                                                                                                                     | 329,744                              | 296,891                     |
| Accounts receivable, net of allowance for doubtful accounts of \$1,141 at September 30, 2014 and \$1,208 at December 31, 2013                                                                                                        | 35,354                               | 45,318                      |
| Inventories                                                                                                                                                                                                                          | 38,248                               | 34,451                      |
| Prepaid income taxes                                                                                                                                                                                                                 | 9,381                                | 5,966                       |
| Prepaid expenses and other current assets                                                                                                                                                                                            | 5,372                                | 7,319                       |
| Deferred income taxes                                                                                                                                                                                                                | 6,404                                | 4,351                       |
| Total current assets                                                                                                                                                                                                                 | 424,503                              | 394,296                     |
| <b>PROPERTY AND EQUIPMENT, net</b>                                                                                                                                                                                                   | 88,532                               | 87,861                      |
| <b>GOODWILL</b>                                                                                                                                                                                                                      | 1,478                                | 1,478                       |
| <b>INTANGIBLE ASSETS, net</b>                                                                                                                                                                                                        | 7,394                                | 8,490                       |
| <b>DEFERRED INCOME TAXES</b>                                                                                                                                                                                                         | 5,809                                | 7,518                       |
|                                                                                                                                                                                                                                      | \$527,716                            | \$499,643                   |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                                                                                                                                          |                                      |                             |
| <b>CURRENT LIABILITIES:</b>                                                                                                                                                                                                          |                                      |                             |
| Accounts payable                                                                                                                                                                                                                     | \$11,932                             | \$11,335                    |
| Accrued liabilities                                                                                                                                                                                                                  | 17,318                               | 15,551                      |
| Total current liabilities                                                                                                                                                                                                            | 29,250                               | 26,886                      |
| <b>DEFERRED INCOME TAXES</b>                                                                                                                                                                                                         | 4,325                                | 3,630                       |
| <b>INCOME TAX LIABILITY</b>                                                                                                                                                                                                          | 2,713                                | 4,402                       |
| <b>COMMITMENTS AND CONTINGENCIES</b>                                                                                                                                                                                                 | —                                    | —                           |
| <b>STOCKHOLDERS' EQUITY:</b>                                                                                                                                                                                                         |                                      |                             |
| Convertible preferred stock, \$1.00 par value Authorized—500 shares; Issued and outstanding— none                                                                                                                                    | —                                    | —                           |
| Common stock, \$0.10 par value — Authorized, 80,000 shares; Issued, 15,360 shares at September 30, 2014 and 15,103 shares at December 31, 2013; Outstanding, 15,360 shares September 30, 2014 and 15,102 shares at December 31, 2013 | 1,536                                | 1,510                       |
| Additional paid-in capital                                                                                                                                                                                                           | 93,900                               | 78,495                      |
| Treasury stock, at cost — 0 shares at September 30, 2014 and 1 shares at December 31, 2013                                                                                                                                           | (1)                                  | (49)                        |
| Retained earnings                                                                                                                                                                                                                    | 401,539                              | 382,576                     |
| Accumulated other comprehensive income                                                                                                                                                                                               | (5,546)                              | 2,193                       |
| Total stockholders' equity                                                                                                                                                                                                           | 491,428                              | 464,725                     |
|                                                                                                                                                                                                                                      | \$527,716                            | \$499,643                   |

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(1) December 31, 2013 balances were derived from audited consolidated financial statements.  
The accompanying notes are an integral part of these condensed consolidated financial statements.

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ICU Medical, Inc. and Subsidiaries  
Condensed Consolidated Statements of Income  
(Amounts in thousands, except per share data)  
(unaudited)

|                                     | Three months ended<br>September 30, |          | Nine months ended<br>September 30, |           |
|-------------------------------------|-------------------------------------|----------|------------------------------------|-----------|
|                                     | 2014                                | 2013     | 2014                               | 2013      |
| REVENUES:                           |                                     |          |                                    |           |
| Net sales                           | \$77,329                            | \$82,709 | \$228,997                          | \$235,419 |
| Other                               | 128                                 | 106      | 367                                | 356       |
| TOTAL REVENUE                       | 77,457                              | 82,815   | 229,364                            | 235,775   |
| COST OF GOODS SOLD                  | 39,310                              | 41,860   | 117,648                            | 119,988   |
| Gross profit                        | 38,147                              | 40,955   | 111,716                            | 115,787   |
| OPERATING EXPENSES:                 |                                     |          |                                    | —         |
| Selling, general and administrative | 21,843                              | 22,399   | 68,640                             | 68,447    |
| Research and development            | 5,055                               | 3,140    | 13,252                             | 8,949     |
| Restructuring charges               | 2,840                               | —        | 2,840                              | —         |
| Total operating expenses            | 29,738                              | 25,539   | 84,732                             | 77,396    |
| Income from operations              | 8,409                               | 15,416   | 26,984                             | 38,391    |
| OTHER INCOME                        | 155                                 | 190      | 572                                | 570       |
| Income before income taxes          | 8,564                               | 15,606   | 27,556                             | 38,961    |
| PROVISION FOR INCOME TAXES          | (2,136)                             | (4,572)  | (8,593)                            | (11,875)  |
| NET INCOME                          | \$6,428                             | \$11,034 | \$18,963                           | \$27,086  |
| NET INCOME PER SHARE                |                                     |          |                                    |           |
| Basic                               | \$0.42                              | \$0.75   | \$1.25                             | \$1.85    |
| Diluted                             | \$0.42                              | \$0.72   | \$1.22                             | \$1.79    |
| WEIGHTED AVERAGE NUMBER OF SHARES   |                                     |          |                                    |           |
| Basic                               | 15,319                              | 14,684   | 15,220                             | 14,603    |
| Diluted                             | 15,488                              | 15,324   | 15,497                             | 15,139    |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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ICU Medical, Inc. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income (Loss)

(Amounts in thousands)

(unaudited)

|                                                                                                                                                                                                                                                 | Three months ended<br>September 30, |            | Nine months ended<br>September 30, |          |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|------------|------------------------------------|----------|
|                                                                                                                                                                                                                                                 | 2014                                | 2013       | 2014                               | 2013     |
| Net income                                                                                                                                                                                                                                      | \$6,428                             | \$11,034   | \$18,963                           | \$27,086 |
| Other comprehensive income (loss), net of tax of \$(1,833)<br>and \$713 for the three months ended September 30, 2014<br>and 2013, respectively and \$(2,060) and \$450 for the nine<br>months ended September 30, 2014 and 2013, respectively: |                                     |            |                                    |          |
| Foreign currency translation adjustment                                                                                                                                                                                                         | (6,936                              | ) 3,223    | (7,739                             | ) 2,002  |
| Comprehensive income (loss)                                                                                                                                                                                                                     | \$(508                              | ) \$14,257 | \$11,224                           | \$29,088 |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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ICU Medical, Inc. and Subsidiaries  
Condensed Consolidated Statements of Cash Flows  
(Amounts in thousands)  
(unaudited)

|                                                                                   | Nine months ended September 30, |                  |
|-----------------------------------------------------------------------------------|---------------------------------|------------------|
|                                                                                   | 2014                            | 2013             |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                      |                                 |                  |
| Net income                                                                        | \$18,963                        | \$27,086         |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                 |                  |
| Depreciation and amortization                                                     | 14,642                          | 14,451           |
| Provision for doubtful accounts                                                   | 3                               | 40               |
| Provision for warranty and returns                                                | (488)                           | ) 124            |
| Stock compensation                                                                | 6,990                           | 4,133            |
| Loss (gain) on disposal of property and equipment                                 | 8                               | (20)             |
| Bond premium amortization                                                         | 1,599                           | 2,045            |
| Cash provided (used) by changes in operating assets and liabilities               |                                 |                  |
| Accounts receivable                                                               | 9,433                           | (2,538)          |
| Inventories                                                                       | (4,655)                         | ) 2,471          |
| Prepaid expenses and other assets                                                 | 2,146                           | 1,572            |
| Accounts payable                                                                  | 681                             | (790)            |
| Accrued liabilities                                                               | 2,123                           | (1,236)          |
| Income taxes, including excess tax benefits and deferred income taxes             | (3,098)                         | ) (5,094)        |
| Net cash provided by operating activities                                         | 48,347                          | 42,244           |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                      |                                 |                  |
| Purchases of property and equipment                                               | (14,924)                        | ) (15,223)       |
| Proceeds from sale of asset                                                       | 5                               | 21               |
| Intangible asset additions                                                        | (709)                           | ) (839)          |
| Purchases of investment securities                                                | (78,993)                        | ) (71,919)       |
| Proceeds from sale of investment securities                                       | 69,470                          | 76,681           |
| Net cash used by investing activities                                             | (25,151)                        | ) (11,279)       |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                      |                                 |                  |
| Proceeds from exercise of stock options                                           | 9,105                           | 5,016            |
| Proceeds from employee stock purchase plan                                        | 2,485                           | 2,457            |
| Tax benefits from exercise of stock options                                       | 2,734                           | 4,567            |
| Purchase of treasury stock                                                        | (5,836)                         | ) (3,033)        |
| Net cash provided by financing activities                                         | 8,488                           | 9,007            |
| Effect of exchange rate changes on cash                                           | (5,465)                         | ) 1,158          |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>                                  | <b>26,219</b>                   | <b>41,130</b>    |
| <b>CASH AND CASH EQUIVALENTS, beginning of period</b>                             | <b>226,022</b>                  | <b>146,900</b>   |
| <b>CASH AND CASH EQUIVALENTS, end of period</b>                                   | <b>\$252,241</b>                | <b>\$188,030</b> |
| <b>NON-CASH INVESTING ACTIVITIES</b>                                              |                                 |                  |
| Accrued liabilities for property and equipment                                    | \$100                           | \$273            |

The accompanying notes are an integral part of these condensed consolidated financial statements.



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ICU Medical, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

Three and Nine Months Ended September 30, 2014 and 2013

(Amounts in tables in thousands, except per share data)

(unaudited)

Note 1: Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and reflect all adjustments, consisting of only normal recurring adjustments, which are, in the opinion of management, necessary for a fair statement of the consolidated results for the interim periods presented. Results for the interim period are not necessarily indicative of results for the full year. Certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. The condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Annual Report on Form 10-K of ICU Medical, Inc., a Delaware corporation, filed with the SEC for the year ended December 31, 2013.

We operate in one business segment engaged in the development, manufacturing and sale of innovative medical devices used in infusion therapy, oncology and critical care applications. Our devices are sold directly or to distributors and medical product manufacturers throughout the United States and internationally. All subsidiaries are wholly owned and are included in the consolidated financial statements. All intercompany balances and transactions have been eliminated.

Note 2: Restructuring Charges

In the third quarter of 2014, we reorganized our selling and corporate infrastructure, resulting in a reduction in workforce of 61 employees. The \$2.8 million restructuring charge is presented as a separate line item on our statements of income and is comprised of one-time employee termination benefits and other associated costs. We have \$2.1 million accrued for the restructuring charges as of September 30, 2014.

Note 3: New Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") number 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosure of Disposals of Components of an Entity. This ASU changes the criteria for reporting discontinued operations and adds additional disclosures on discontinued operations. ASU 2014-08 improves the definition of discontinued operations by limiting discontinued operations reporting to disposals of components of an entity that represent strategic shifts that have or will have a major effect on an entities operations and financial results. Under current U.S. GAAP, disposals of small groups of assets that are recurring in nature and do not change an entity's strategy currently qualify for discontinued operations. ASU 2014-08 is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2014. Early adoption is permitted. We do not anticipate a material impact on our consolidated financial statements from adoption of this ASU.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 removes inconsistencies and weaknesses in revenue requirements, provides a more robust framework for addressing revenue issues, improves comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets, provides more useful information to users of financial statements through improved

disclosure requirements and simplifies the preparation of financial statements by reducing the number of requirements to which an entity must refer. This guidance requires that an entity depict the consideration by applying a five-step analysis in determining when and how revenue is recognized. The new model will require revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration a company expects to receive in exchange for those goods or services. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. We are currently assessing the impact that adopting this new accounting update will have on our consolidated financial statements and footnote disclosures.

In June 2014, the FASB issued ASU No. 2014-12, Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide that a Performance Target Could be Achieved after the Requisite

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Service Period. ASU 2014-12 requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. This update further clarifies that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. The amendments in ASU 2014-12 are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Early adoption is permitted. Entities may apply the amendments in ASU 2014-12 either: (a) prospectively to all awards granted or modified after the effective date; or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter.

We are currently assessing the impact that adopting this new accounting update will have on our consolidated financial statements and footnote disclosures.

## Note 4: Fair Value Measurement

Our investment securities consist of certificates of deposit, corporate bonds, commercial paper and federal tax-exempt state and municipal government debt. All investment securities are considered available-for-sale and are “investment grade”, carried at fair value, and there have been no gains or losses on their disposal. As of September 30, 2014, we had \$5.7 million of our investment securities as Level 1 assets, which are certificates of deposit with quoted prices in active markets, and \$71.8 million of our investment securities as Level 2 assets, which are pre-refunded municipal securities, non-pre-refunded municipal securities, corporate bonds and commercial paper and have observable market based inputs such as quoted prices, interest rates and yield curves. The following table provides the assets and liabilities carried at fair value measured on a recurring basis.

## Fair value measurements at September 30, 2014 using

|                               | Total carrying value | Quoted prices in active markets for identical assets (level 1) | Significant other observable inputs (level 2) | Significant unobservable inputs (level 3) |
|-------------------------------|----------------------|----------------------------------------------------------------|-----------------------------------------------|-------------------------------------------|
| Available for sale securities | \$77,503             | \$5,665                                                        | \$71,838                                      | \$—                                       |
|                               | \$77,503             | \$5,665                                                        | \$71,838                                      | \$—                                       |

## Fair value measurements at December 31, 2013 using

|                               | Total carrying value | Quoted prices in active markets for identical assets (level 1) | Significant other observable inputs (level 2) | Significant unobservable inputs (level 3) |
|-------------------------------|----------------------|----------------------------------------------------------------|-----------------------------------------------|-------------------------------------------|
| Available for sale securities | \$70,869             | \$3,205                                                        | \$67,664                                      | \$—                                       |
|                               | \$70,869             | \$3,205                                                        | \$67,664                                      | \$—                                       |

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## Note 5: Investment Securities

Our investment securities consist of certificates of deposit, corporate bonds, commercial paper and federal tax-exempt state and municipal government debt. All investment securities are considered available-for-sale and are “investment grade”, carried at fair value, and there have been no gains or losses on their disposal. Unrealized gains and losses on available-for-sale securities, net of tax, are included in accumulated other comprehensive loss in the stockholders' equity section of our consolidated balance sheets. We had no gross unrealized gains or losses on available-for-sale securities at September 30, 2014 or December 31, 2013. The scheduled maturities of the debt securities are between 2014 and 2045 and are all callable within one year. The investment securities consist of the following at September 30, 2014 and December 31, 2013:

|                                    | September 30, 2014 | December 31, 2013 |
|------------------------------------|--------------------|-------------------|
| Federal tax-exempt debt securities | \$14,828           | \$21,968          |
| Corporate bonds                    | 50,713             | 45,696            |
| Commercial paper                   | 6,297              | —                 |
| Certificates of deposit            | 5,665              | 3,205             |
|                                    | \$77,503           | \$70,869          |

## Note 6: Inventories

Inventories consisted of the following:

|                 | September 30, 2014 | December 31, 2013 |
|-----------------|--------------------|-------------------|
| Raw material    | \$23,066           | \$21,867          |
| Work in process | 4,188              | 2,749             |
| Finished goods  | 10,994             | 9,835             |
| Total           | \$38,248           | \$34,451          |

## Note 7: Property and Equipment

Property and equipment consisted of the following:

|                                          | September 30, 2014 | December 31, 2013 |
|------------------------------------------|--------------------|-------------------|
| Machinery and equipment                  | \$91,027           | \$84,317          |
| Land, building and building improvements | 71,768             | 64,238            |
| Molds                                    | 32,782             | 30,813            |
| Computer equipment and software          | 22,857             | 21,625            |
| Furniture and fixtures                   | 3,619              | 3,552             |
| Construction in progress                 | 2,065              | 8,456             |
| Total property and equipment, cost       | 224,118            | 213,001           |
| Accumulated depreciation                 | (135,586)          | (125,140)         |
| Net property and equipment               | \$88,532           | \$87,861          |

## Note 8: Net Income Per Share

Net income per share is computed by dividing net income by the weighted average number of common shares outstanding. Diluted net income per share is computed by dividing net income by the weighted average number of common shares outstanding plus dilutive securities. Dilutive securities are outstanding common stock options and

restricted stock units(excluding stock options with an exercise price in excess of the average market value for the period), less the number of shares that could have been purchased with the proceeds from the exercise of the options, using the treasury stock method. Options that are anti-dilutive because their exercise price exceeded the average market price of the common stock for the period

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approximated 211,000 for the three months ended September 30, 2014. There were no anti-dilutive options for the three months ended September 30, 2013. Options that are anti-dilutive because their exercise price exceeded the average market price of the common stock for the period approximated 235,000 and 8,000 for nine months ended September 30, 2014 and September 30, 2013, respectively.

The following table presents the calculation of net earnings per common share (“EPS”) — basic and diluted.

|                                                                                            | Three months ended<br>September 30, |          | Nine months ended<br>September 30, |          |
|--------------------------------------------------------------------------------------------|-------------------------------------|----------|------------------------------------|----------|
|                                                                                            | 2014                                | 2013     | 2014                               | 2013     |
| Net income                                                                                 | \$6,428                             | \$11,034 | \$18,963                           | \$27,086 |
| Weighted average number of common shares outstanding (for basic calculation)               | 15,319                              | 14,684   | 15,220                             | 14,603   |
| Dilutive securities                                                                        | 169                                 | 640      | 277                                | 536      |
| Weighted average common and common equivalent shares outstanding (for diluted calculation) | 15,488                              | 15,324   | 15,497                             | 15,139   |
| EPS — basic                                                                                | \$0.42                              | \$0.75   | \$1.25                             | \$1.85   |
| EPS — diluted                                                                              | \$0.42                              | \$0.72   | \$1.22                             | \$1.79   |

## Note 9: Major Customer

We had revenues equal to 10% or more of total revenues from one customer, Hospira, Inc. Such revenues were 37% and 40% of total revenue for the three months ended September 30, 2014 and 2013, respectively, and 36% and 40% of total revenue for the nine months ended September 30, 2014 and 2013, respectively. As of September 30, 2014 and December 31, 2013, we had accounts receivable from Hospira of 30% and 32% of consolidated accounts receivable, respectively.

## Note 10: Income Taxes

Income taxes were accrued at an estimated effective tax rate of 31% and 30% in the first nine months of 2014 and 2013, respectively. The effective tax rate differs from that computed at the federal statutory rate of 35% principally because of the effect of foreign and state income taxes, tax credits, deductions for domestic production activities and discrete tax items related to the conclusion of state tax examinations.

## Note 11: Commitments and Contingencies

From time to time, we are involved in various legal proceedings, most of which are routine litigation, in the normal course of business. Our management does not believe that the resolution of the other legal proceedings that we are involved with will have a material adverse impact on our financial position or results of operations.

In the normal course of business, we have agreed to indemnify our officers and directors to the maximum extent permitted under Delaware law and to indemnify customers as to certain intellectual property matters related to sales of our products. There is no maximum limit on the indemnification that may be required under these agreements. Although we can provide no assurances, we have never incurred, nor do we expect to incur, any material liability for indemnification.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

We are a leader in the development, manufacture and sale of innovative medical devices used in infusion therapy, oncology and critical care applications. Our products help clinicians improve patient outcomes by minimizing bacterial ingress that can cause bloodstream infections and preventing exposure to infectious diseases or hazardous drugs. Our product line includes needlefree vascular access devices, custom infusion sets, closed system hazardous drug handling devices and systems, advanced sensor catheters, needlefree closed blood sampling systems and innovative hemodynamic monitoring systems.

Business Overview

In the early 1990s, we launched the Clave, an innovative one-piece, needlefree infusion connection device. The Clave is a leader in worldwide connector sales. The Clave's unique design ensures compliance with needlefree policies because it is rendered non-functional when use of a needle is attempted. Our Clave products accounted for 35% of our revenues in 2013.

In the late 1990s, we commenced a transition from a product-centered company to an innovative, fast, efficient, low-cost manufacturer of custom infusion sets, using processes that we believe can be readily applied to a variety of disposable medical devices. This strategy has enabled us to capture revenue on the entire infusion delivery system, and not just a component of the system. We have furthered this effort to include all of our proprietary devices beyond the Clave.

One of our growth strategies is through acquisitions of companies, assets or product lines. We are continuously exploring acquisition opportunities, however there is no assurance that we will be successful in finding future acquisition opportunities or integrating new product lines into our existing business.

Another strategy for reducing our dependence on our current proprietary products has been to introduce new products. In 2013, we introduced the ChemoLock closed system transfer device. ChemoLock prevents the escape of hazardous drug or vapor concentrations, blocks the transfer of environmental contaminants into the system, and eliminates needlestick injuries. In 2011 and 2012, we introduced the Neutron, a catheter patency device using Clave technology, the NanoClave, a smaller Clave product designed for neonatal and pediatric patients and the Diana Hazardous Drug Compounding System, an automated sterile compounding system for preparing hazardous drugs. We can provide no assurance that we will be able to successfully manufacture, market and sell these new products.

We are also expanding our business through increased sales to medical product manufacturers, independent distributors and through direct sales to the end users of our product. These expansions include, but are not limited to, our 2014 agreement with Premier, the extension of the term of our agreement with MedAssets and our 2011 agreement with Novation covering all our critical care products. Each of these organizations is a U.S. healthcare purchasing network. We also potentially face substantial increases in competition in our Clave business. Therefore, we are focusing on increasing product development, acquisition, sales and marketing efforts to custom infusion systems, oncology products, critical care products and other products that lend themselves to customization and new products in the U.S. and international markets.

Our products are used in hospitals and alternate medical sites in more than 55 countries throughout the world. We categorize our products into three main market segments: Infusion Therapy, Critical Care and Oncology. In prior periods, we included Tego needlefree hemodialysis connector and Lopez enteral valve under "Other". The Tego is now included under Infusion Therapy. The Lopez Valve is now included under Critical Care. Our primary products include:

Infusion Therapy

- Needlefree connector products
  - MicroClave and MicroClave Clear
  - Anti-Microbial MicroClave
  - Neutron
  - NanoClave
  - Clave
  - Y-Clave
  - Anti-Microbial Clave
- Custom infusion sets
- Tego needlefree hemodialysis connector

Critical Care

- Hemodynamic monitoring systems
  - Transpac disposable pressure transducers

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- Safeset closed needlefree blood conservation systems
- CardioFlo hemodynamic monitoring sensor system
- Custom monitoring systems
- Catheters
  - Advanced sensor catheters
  - Pulmonary artery thermodilution catheters
  - Central venous oximetry catheters
  - Multi-lumen central venous catheters
- Custom angiography and interventional radiology kits
- Lopez enteral valve

Oncology

- ChemoLock closed system transfer device and components
- ChemoClave closed system transfer device and components including:
  - Genie closed vial access device
  - Spiros closed male luer
- Custom preparation and administration sets and accessories
- Diana hazardous drug compounding system

Our largest customer is Hospira. Hospira accounted for 36%, 39% and 42% of our worldwide revenues in the first nine months of 2014 and each of the years ended 2013 and 2012, respectively. Our relationship with Hospira has been and will continue to be important for our growth. Hospira has a significant share of the I.V. set market in the U.S. and provides us access to that market. We expect revenues from infusion therapy sales and new products to Hospira to remain a significant percentage of our revenues and to continue to be important to our worldwide growth.

Revenues for the first nine months of 2014 and the years ended 2013 and 2012 were \$229.4 million, \$313.7 million and \$316.9 million, respectively. We currently sell substantially all of our products to medical product manufacturers, independent distributors and through direct sales to the end user. Most of our independent distributors handle the full line of our infusion administration products. We sell our I.V. administration and oncology products under two agreements with Hospira. Under a 1995 agreement, Hospira purchases Clave products, principally bulk, non-sterile connectors and oncology products. Under a 2001 agreement, we sell custom infusion sets to Hospira under a program referred to as SetSource. Our 1995 and 2001 agreements with Hospira provide Hospira with conditional exclusive and nonexclusive rights to distribute all existing ICU Medical products worldwide with terms that extend through most of 2018. We sell invasive monitoring and angiography products to independent distributors and through direct sales. We also sell certain other products to a number of other medical product manufacturers.

We believe that as healthcare providers continue to either consolidate or join major buying organizations, the success of our products will depend, in part, on our ability, either independently or through strategic relationships such as our Hospira relationship, to secure long-term contracts with large healthcare providers and major buying organizations. As a result of this marketing and distribution strategy we derive most of our revenues from a relatively small number of distributors and manufacturers. The loss of a strategic relationship with a customer or a decline in demand for a manufacturing customer's products could have a material adverse effect on our operating results.

We believe that achievement of our growth objectives worldwide will require increased efforts by us in sales and marketing and product development; however, there is no assurance that we will be successful in implementing our growth strategy. Product development or acquisition efforts may not succeed, and even if we do develop or acquire additional products, there is no assurance that we will achieve profitable sales of such products. An adverse change in our relationship with Hospira, or a deterioration of Hospira's position in the market, could have an adverse effect on us. Increased expenditures for sales and marketing and product acquisition and development may not yield desired

results when expected, or at all. While we have taken steps to control these risks, there are certain risks that may be outside of our control, and there is no assurance that steps we have taken will succeed.

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The following table sets forth, for the periods indicated, total revenues by market segment as a percentage of total revenues.

| Market segment   | Three months ended<br>September 30, |       | Nine months ended<br>September 30, |       | Fiscal year ended |       |   |
|------------------|-------------------------------------|-------|------------------------------------|-------|-------------------|-------|---|
|                  | 2014                                | 2013  | 2014                               | 2013  | 2013              | 2012  |   |
| Infusion therapy | 71                                  | % 71  | % 69                               | % 71  | % 71              | % 72  | % |
| Critical care    | 17                                  | % 17  | % 18                               | % 17  | % 17              | % 17  | % |
| Oncology         | 12                                  | % 12  | % 12                               | % 12  | % 12              | % 10  | % |
| Other            | —                                   | % —   | % 1                                | % —   | % —               | % 1   | % |
|                  | 100                                 | % 100 | % 100                              | % 100 | % 100             | % 100 | % |

## Seasonality/Quarterly Results

The healthcare business in the United States is subject to quarterly fluctuations due to frequency of illness during the seasons, elective procedures, and over the last few years, the economy. In Europe, the healthcare business generally slows down in the summer months due to vacations resulting in fewer elective surgeries. Also in Europe, hospitals' budgets tend to finish at the end of the year which may cause fewer purchases in the last three months of the year as hospitals await their new budgets in January. In addition, we can experience fluctuations in net sales as a result of variations in the ordering patterns of our largest customers, which may be driven more by production scheduling and their inventory levels, and less by seasonality. Our expenses often do not fluctuate in the same manner as net sales, which may cause fluctuations in operating income that are disproportionate to fluctuations in our revenue.

## Quarter-to-Quarter Comparisons

We present income statement data in Part I, Item 1 - Financial Statements. The following table shows, for the three and nine months ended September 30, 2014 and 2013 and the year ended December 31, 2013, the percentages of each income statement caption in relation to total revenues.

|                                              | Percentage of revenues              |       |                                    |       |             |   |
|----------------------------------------------|-------------------------------------|-------|------------------------------------|-------|-------------|---|
|                                              | Three months ended<br>September 30, |       | Nine months ended<br>September 30, |       | Fiscal year |   |
|                                              | 2014                                | 2013  | 2014                               | 2013  | 2013        |   |
| Total revenues                               | 100                                 | % 100 | % 100                              | % 100 | % 100       | % |
| Gross margin                                 | 49                                  | % 49  | % 49                               | % 49  | % 49        | % |
| Selling, general and administrative expenses | 28                                  | % 27  | % 30                               | % 29  | % 28        | % |
| Research and development expenses            | 7                                   | % 3   | % 6                                | % 4   | % 4         | % |
| Restructuring charges                        | 3                                   | % —   | % 1                                | % —   | % —         | % |
| Total operating expenses                     | 38                                  | % 30  | % 37                               | % 33  | % 32        | % |
| Income from operations                       | 11                                  | % 19  | % 12                               | % 16  | % 17        | % |
| Other income                                 | —                                   | % —   | % —                                | % —   | % —         | % |
| Income before income taxes                   | 11                                  | % 19  | % 12                               | % 16  | % 17        | % |
| Income taxes                                 | 3                                   | % 6   | % 4                                | % 5   | % 4         | % |
| Net income                                   | 8                                   | % 13  | % 8                                | % 11  | % 13        | % |

## Restructuring Charges

In the third quarter of 2014, we reorganized our selling and corporate infrastructure, resulting in a reduction in workforce of 61 employees. The \$2.8 million restructuring charge is presented as a separate line item on our

statements of income and is comprised of one-time employee termination benefits and other associated costs. We have \$2.1 million accrued for the restructuring charges as of September 30, 2014 and expect the majority of this accrual to be paid out in the fourth quarter of 2014 and the first quarter of 2015.

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Quarter Ended September 30, 2014 Compared to the Quarter Ended September 30, 2013

Revenues were \$77.5 million in the third quarter of 2014 and \$82.8 million in the third quarter of 2013.

**Infusion Therapy:** Net infusion therapy sales were \$54.9 million in the third quarter of 2014, a decrease of \$3.6 million, or 6%, from the third quarter of 2013. Domestic infusion therapy sales were \$41.0 million in the third quarter of 2014, a decrease of \$4.1 million, or 9%, from the third quarter of 2013. The decrease in domestic infusion therapy was from \$3.1 million in lower sales to Hospira and \$1.0 million in lower direct domestic sales. International infusion therapy sales were \$13.9 million in the third quarter of 2014, an increase of \$0.5 million, or 4%, from the third quarter of 2013. The increase in international infusion therapy sales was from higher unit sales and higher average selling prices ("ASPs") due to change in product mix inside and outside of Europe.

**Critical Care:** Net critical care sales were \$12.8 million in the third quarter of 2014, a decrease of \$1.4 million, or 10%, from the third quarter of 2013. Domestic critical care sales were \$9.1 million in the third quarter of 2014, a decrease of \$1.4 million, or 13%, from the third quarter of 2013 due to lower unit sales and lower average selling prices due to change in product mix. International critical care sales were \$3.7 million in the third quarter of 2014 and in the third quarter of 2013, a \$0.3 million decrease in critical care sales in Europe was offset by a \$0.3 million increase in international critical care sales outside of Europe.

**Oncology:** Net oncology sales were \$9.4 million in the third quarter of 2014, a decrease of \$0.5 million, or 5%, from the third quarter of 2013. Domestic oncology sales were \$4.3 million in the third quarter of 2014, a decrease of \$0.2 million, or 4%, from the third quarter of 2013, due to a decrease in domestic oncology sales to Hospira of \$0.8 million due to lower unit sales, offset by an increase in direct domestic oncology sales of \$0.6 million due to higher unit sales. International oncology sales were \$5.1 million in the third quarter of 2014, a decrease of \$0.3 million, or 6%, from the third quarter of 2013 due to lower unit sales outside of Europe.

Gross margins for the third quarters of 2014 and 2013 were 49.2% and 49.4%, respectively. The decrease in gross margin was primarily due to unfavorable change in product mix, partially offset by lower logistic expenses.

Selling, general and administrative expenses ("SG&A") were \$21.8 million, or 28% of revenues, in the third quarter of 2014, compared with \$22.4 million, or 27%, of revenues in third quarter of 2013. The decrease in SG&A expenses is primarily from \$0.7 million in lower compensation and benefits and \$0.7 million in lower travel expenses, partially offset by \$1.1 million in higher stock compensation expense. The decreases in compensation and benefits and travel expenses were primarily due to the restructuring of our sales organization in the third quarter of 2014, resulting in a reduction in workforce.

Research and development expenses ("R&D") were \$5.1 million, or 7% of revenue, in the third quarter of 2014 compared to \$3.1 million, or 3%, of revenue in the third quarter of 2013. The increase in R&D expenses was primarily from increased compensation and benefits expenses from an increase in employees and increased external R&D project expenses. Our R&D team focuses on filling in product line gaps and product enhancements for our product line target markets and creating additional market opportunities.

Restructuring charges were \$2.8 million, or 3% of revenues, in the third quarter of 2014. We reorganized our selling and corporate infrastructure in the third quarter of 2014, resulting in a reduction in workforce of 61 employees. The restructuring charges are comprised of one-time employee termination benefits and other associated costs.

Other income was \$0.2 million in the third quarter of 2014 and in the third quarter of 2013.

Income taxes were accrued at an estimated effective tax rate of 25% in the third quarter of 2014 and 29% in the third quarter of 2013. The rate differed from the statutory corporate rate of 35% principally because of the effect of foreign and state income taxes, tax credits, deductions for domestic production activities and discrete tax items.

Nine Months Ended September 30, 2014 Compared to the Nine Months Ended September 30, 2013

Revenues were \$229.4 million in the first nine months of 2014, compared to \$235.8 million in the first nine months of 2013.

Infusion Therapy: Net infusion therapy sales were \$159.3 million in the first nine months of 2014, a decrease of \$7.1 million, or 4%, from the first nine months of 2013. Domestic infusion therapy sales were \$115.2 million in the first nine months of 2014, a decrease of \$10.7 million, or 9%, from the first nine months of 2013. The decrease in domestic infusion

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therapy was primarily from \$10.6 million in lower sales to Hospira, due to lower unit sales. International infusion therapy sales were \$44.0 million in the first nine months of 2014, an increase of \$3.6 million, or 9%, from the first nine months of 2013. The increase in international infusion therapy sales was primarily from higher unit sales and higher ASPs due to change in product mix outside of Europe.

Critical Care: Net critical care sales were \$41.3 million in the first nine months of 2014, an increase of \$0.3 million, or 1%, from the first nine months of 2013. Domestic critical care sales were \$29.8 million in the first nine months of 2014, a decrease of \$0.6 million, or 2%, from the first nine months of 2013 due to lower unit sales and lower average selling prices due to change in product mix. International critical care sales were \$11.5 million in the first nine months of 2014, an increase of \$0.8 million, or 8%, from the first nine months of 2013 primarily due to higher unit sales and higher ASPs due to change in product mix outside of Europe.

Oncology: Net oncology sales were \$27.7 million in the first nine months of 2014, an increase of \$0.2 million, or 1%, from the first nine months of 2013. Domestic oncology sales were \$12.2 million in the first nine months of 2014, an increase of \$0.1 million, or 1%, from the first nine months of 2013. The increase in domestic oncology was from \$0.9 million increase in direct sales from higher unit sales, partially offset by \$0.8 million in lower sales to U.S. Hospira. International oncology sales were \$15.6 million in the first nine months of 2014, an increase of \$0.2 million, or 1%, from the first nine months of 2013. European oncology sales increased \$1.1 million due to higher unit sales and were partially offset by \$0.9 million in lower international oncology sales outside of Europe due to lower unit sales.

Gross margins for the first nine months of 2014 and 2013 were 48.7% and 49.1%, respectively. The decrease in gross margin was due to unfavorable change in product mix and temporary rework of one of our product lines, partially offset by lower logistic expenses.

SG&A were \$68.6 million, or 30% of revenues, in the first nine months of 2014, compared with \$68.4 million, or 29% of revenues, in the first nine months of 2013. The increase was primarily from \$2.6 million in higher stock compensation expense and \$0.6 million in higher outside services expenses, partially offset by \$1.6 million in lower travel expenses and \$1.1 million in lower compensation and benefit expenses.

R&D were \$13.3 million, or 6% of revenue, in the first nine months of 2014 compared to \$8.9 million, or 4% of revenue, in the first nine months of 2013. The increase in R&D expenses was primarily from increased compensation and benefit expenses from an increase in R&D employees and increased external R&D project expenses.

Restructuring charges were \$2.8 million, or 3% of revenues, in the first nine months of 2014. We reorganized our selling and corporate infrastructure in the third quarter of 2014, resulting in a reduction in workforce of 61 employees. The restructuring charges are comprised of one-time employee termination benefits and other associated costs.

Other income was \$0.6 million in the first nine months of 2014 and in the first nine months of 2013.

Income taxes were accrued at an estimated effective tax rate of 31% in the first nine months of 2014 compared to 30% in the first nine months of 2013. The rate differed from the statutory corporate rate of 35% principally because of the effect of foreign and state income taxes, tax credits, deductions for domestic production activities and discrete tax items.

## Liquidity and Capital Resources

During the first nine months of 2014, our cash, cash equivalents and investment securities increased by \$32.8 million from \$296.9 million at December 31, 2013 to \$329.7 million at September 30, 2014.

Operating Activities: Our cash provided by operating activities is subject to fluctuations, principally from changes in net income, accounts receivable, inventories and the timing of tax payments.

Our cash provided by operations was \$48.3 million in the first nine months of 2014. Net income plus adjustments for non-cash net expenses contributed \$41.7 million to cash provided by operations. Changes in operating assets and liabilities contributed \$6.6 million to cash provided by operations. The \$9.4 million decrease in accounts receivable and \$4.7 million increase in inventory were the largest changes in operating assets and liabilities. Cash provided by the change in accounts receivable is primarily due to improved days sales outstanding and lower revenue in the third quarter of 2014 compared to the third quarter of 2013. The increase in inventory was due to raw materials inventory, higher finished goods inventory and work in progress inventory.

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**Investing Activities:** Our cash used by investing activities was \$25.2 million in the first nine months of 2014, which was primarily comprised of \$14.9 million in capital purchases and net investment purchases of \$9.5 million. Our property, plant and equipment purchases were primarily for the plant expansion, machinery, equipment and mold additions in our Salt Lake City plant, machinery and equipment additions in our Mexico plant and investments in IT that benefit world-wide operations.

While we can provide no assurances, we estimate that our capital expenditures in 2014 will approximate \$16.0 million to \$19.0 million. The construction for the expansion of our Salt Lake City plant was completed in June 2014. Capital expenditures for the plant expansion were approximately \$8.0 million in the first nine months of 2014. We also anticipate making additional investments in molds, machinery and equipment in our manufacturing operations in the United States and Mexico to support new and existing products and investments in IT that benefit world-wide operations. We expect to use our cash and investments to fund our capital purchases. These planned amounts of spending are estimates and actual spending may substantially differ from these amounts.

**Financing Activities:** Our cash provided by financing activities was \$8.5 million in the first nine months of 2014. Cash and tax benefits provided by the exercise of stock options and shares purchased by our employees under the employee stock purchase plan was \$14.3 million in the first nine months of 2014. In the first nine months of 2014, we withheld 4,583 shares of our common stock from option exercises and 4,232 shares of our common stock from vested restricted stock units as consideration for \$0.2 million in payments for the employee's share award tax withholding obligations.

In July 2010, our Board of Directors approved a share purchase plan to purchase up to \$40.0 million of our common stock. We purchased \$5.6 million in our common stock in the first half of 2014, all in the first quarter. As of September 30, 2014, we purchased \$17.5 million of our common stock pursuant to this plan, leaving a balance of \$22.5 million available for future purchases. This plan has no expiration date. We may purchase additional shares in future quarters and expect we would use our cash and investments to fund the share purchases.

We have a substantial cash and investment security position generated from profitable operations and stock sales, principally from the exercise of employee stock options. We maintain this position to fund our growth, meet increasing working capital requirements, fund capital expenditures, and to take advantage of acquisition opportunities that may arise. Our primary investment goal is capital preservation, as further described in Part 1, Item 3. Quantitative and Qualitative Disclosures about Market Risk.

As of September 30, 2014, we have \$19.3 million of cash and cash equivalents held by our foreign subsidiaries, the majority of which is available to fund foreign operations and obligations.

We believe that our existing cash, cash equivalents and investment securities along with funds expected to be generated from future operations will provide us with sufficient funds to finance our current operations for the next twelve months. In the event that we experience illiquidity in our investment securities, downturns or cyclical fluctuations in our business that are more severe or longer than anticipated or if we fail to achieve anticipated revenue and expense levels, we may need to obtain or seek alternative sources of capital or financing, and we can provide no assurances that the terms of such capital or financing will be available to us on favorable terms, if at all.

## Off Balance Sheet Arrangements

In the normal course of business, we have agreed to indemnify our officers and directors to the maximum extent permitted under Delaware law and to indemnify customers as to certain intellectual property matters related to sales of our products. There is no maximum limit on the indemnification that may be required under these agreements. Although we can provide no assurances, we have never incurred, nor do we expect to incur, any material liability for

indemnification.

#### Contractual Obligations

We have contractual obligations, at September 30, 2014, of approximately the amounts set forth in the table below. These amounts excludes inventory related purchase orders for goods and services for current delivery. The majority of our inventory purchase orders are blanket purchase orders that represent an estimated forecast of goods and services. We do not have a commitment liability on the blanket purchase orders. Since we do not have the ability to separate out blanket purchase orders from non-blanket purchase orders for inventory related goods and services for current delivery, amounts related to such purchase orders are excluded from the table below. We have excluded from the table below pursuant to ASC 740-10-25 (formerly FIN 48), an interpretation of ASC 740-10 (formerly SFAS 109), a non-current income tax liability of \$2.7 million due to the high degree of uncertainty regarding the timing of future cash outflows associated with the liabilities.

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|                         | (in thousands) |         |       |      |      |
|-------------------------|----------------|---------|-------|------|------|
| Contractual Obligations | Total          | 2014    | 2015  | 2016 | 2017 |
| Operating leases        | \$288          | \$74    | \$151 | \$63 | —    |
| Service agreements      | 122            | 93      | 13    | 13   | 3    |
| Purchase obligations    | 4,115          | 4,115   | —     | —    | —    |
|                         | \$4,525        | \$4,282 | \$164 | \$76 | 3    |

## Critical Accounting Policies

In our Annual Report on Form 10-K for the year ended December 31, 2013, we identified the critical accounting policies which affect our more significant estimates and assumptions used in preparing our consolidated financial statements. We have not changed these policies from those previously disclosed in our Annual Report.

## New Accounting Pronouncements

See Note 3 to Part I, Item 1. Financial Statements.

## Forward Looking Statements

Various portions of this Quarterly Report on Form 10-Q, including this Management's Discussion and Analysis of Financial Condition and Results of Operations, describe trends in our business and finances that we perceive and state some of our expectations and beliefs about our future. These statements about the future are "forward looking statements," within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and we identify them by using words such as "anticipate," "believe," "expect," "estimate," "intend," "plan," "will," "continue," "could," "may," and by similar expressions and statements about aims, goals and plans. The forward looking statements are based on the best information currently available to us and assumptions that we believe are reasonable, but we do not intend the statements to be representations as to future results. They include, without limitation, statements about:

future growth; future operating results and various elements of operating results, including future expenditures on sales and marketing and product development; future sales of products; expected increases or decreases in sales; production costs; gross margins; litigation expense; SG&A and R&D expenses; future costs of expanding our business; income; losses; cash flow; capital expenditures; source and sufficiency of funds for capital purchases and operations; tax rates; changes in working capital items such as receivables and inventory; selling prices; and income taxes;

factors affecting operating results, such as shipments to specific customers; reduced dependence on current proprietary products; expansion in international markets and use of foreign currency, selling prices; foreign exchange rate fluctuations, economic conditions in European and other international markets; future increases or decreases in sales of certain products and in certain markets and distribution channels; increases in systems capabilities; introduction and sales of new products; planned increases in marketing efforts; inventory requirements; planned capital purchases for molds, machinery and equipment in our manufacturing operations and investments in information technology; results of R&D; business seasonality and fluctuations in quarterly results; customer ordering patterns, production scheduling and inventory levels and the effects of new accounting pronouncements; and

expansion of our custom products business; expectations regarding revenues from our custom infusion sets, custom critical care and custom oncology products and the importance of these products in the future; our focus on increasing product development, acquisition, sales and marketing efforts to custom products and similar products; new or

extended contracts with manufacturers and buying organizations; dependence on a small number of customers; future sales to and revenues from Hospira and the importance of Hospira to our growth and our positioning with respect to new product introductions and market share; expectations regarding days' sales outstanding in Hospira accounts receivable; the outcome of our strategic initiatives; outcome of litigation; competitive and market factors, including continuing development of competing products by other manufacturers; our dependence on securing long-term contracts with large healthcare providers and major buying organizations; working capital requirements; liquidity and realizable value of our investment securities; future investment alternatives; our expectations regarding liquidity and capital resources over the next twelve months; future share repurchases; acquisitions of other businesses or product lines, indemnification liabilities and contractual liabilities.

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Forward-looking statements involve certain risks and uncertainties, which may cause actual results to differ materially from those discussed in each such statement. First, one should consider the factors and risks described in the statements themselves or otherwise discussed herein. Those factors are uncertain, and if one or more of them turn out differently than we currently expect, our operating results may differ materially from our current expectations.

Second, investors should read the forward looking statements in conjunction with the Risk Factors discussed in Part I, Item 1A of our Annual Report on Form 10-K with the SEC for the year ended December 31, 2013 and our other reports and registration statements filed with the SEC. Also, actual future operating results are subject to other important factors and risks that we cannot predict or control, including without limitation, the following:

- general economic and business conditions, in the U.S., Europe and other international locations;
- unexpected changes in our arrangements with Hospira or our other large customers;
- outcome of litigation;
- fluctuations in foreign exchange rates and other risks of doing business internationally;
- increases in labor costs or competition for skilled workers;
- increases in costs or availability of the raw materials need to manufacture our products;
- the effect of price and safety considerations on the healthcare industry;
- competitive factors, such as product innovation, new technologies, marketing and distribution strength and price erosion;
- the successful development and marketing of new products;
- unanticipated market shifts and trends;
- the impact of legislation affecting government reimbursement of healthcare costs;
- changes by our major customers and independent distributors in their strategies that might affect their efforts to market our products;
- the effects of additional governmental regulations;
- unanticipated production problems; and
- the availability of patent protection and the cost of enforcing and of defending patent claims.

The forward-looking statements in this report are subject to additional risks and uncertainties, including those detailed from time to time in our other filings with the Securities and Exchange Commission. These forward-looking statements are made only as of the date hereof and, except as required by law, we undertake no obligation to update or revise any of them, whether as a result of new information, future events or otherwise.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

## Financial Market Risk

We had a portfolio of federal tax-exempt state and municipal government bonds, corporate bonds, commercial paper and certificates of deposit of \$77.5 million as of September 30, 2014. The securities are all “investment grade”, comprised of \$14.3 million of pre-refunded municipal securities, \$0.5 million of non-pre-refunded municipal securities, \$50.7 million in corporate bonds, \$6.3 million in commercial paper and \$5.7 million of certificates of deposit. The pre-refunded municipal securities are fully escrowed by U.S. government Treasury bills with low market risk.

Our future earnings are subject to potential increase or decrease because of changes in short-term interest rates. Generally, each one-percentage point change in the discount rate will cause our overall yield to change by two-thirds to three-quarters of a percentage point, depending upon the relative mix of federal-tax-exempt securities in our portfolio and market conditions specific to the securities in which we invest. Two-thirds to three-quarters of a percentage point change in our earnings on investment securities would create a change of approximately \$0.5 million to investment income based on the investment securities balance at September 30, 2014.

## Foreign Exchange Risk

We have foreign currency exchange risk related to foreign-denominated cash, short-term investments, accounts receivable and accounts payable. In our European operations, our net Euro asset position at September 30, 2014 was approximately €18.2 million. We also have approximately €52.1 million in Euro denominated cash and investment accounts

held by our corporate entity. A 10% change in the conversion of the Euro to the U.S. dollar for our cash and investments, accounts receivable, accounts payable and accrued liabilities from the September 30, 2014 spot rate would impact our

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consolidated amounts on these balance sheet items by approximately \$8.9 million, or 2.7% of these net assets. We expect that in the future, with the growth of our European distribution operation, net Euro denominated instruments will continue to increase. We currently do not hedge our foreign currency exposures.

Sales from the U.S. to foreign distributors are denominated in U.S. dollars. We have manufacturing, sales and distribution facilities in several countries and we conduct business transactions denominated in various foreign currencies, although principally the Euro and Mexican Peso. A 10% change in the conversion of the Mexican Peso to the U.S. dollar from the average exchange rate we experienced in 2013 and our manufacturing spending from 2013 would have impacted 2013 cost of goods sold by approximately \$2.4 million.

### Commodity Risk

Our exposure to commodity price changes relates primarily to certain manufacturing operations that use resin. We manage our exposure to changes in those prices through our procurement and supply chain management practices and the effect of price changes has not been material to date. Based on our average price for resin in fiscal year 2013, a 10% increase to the price of resin would have resulted in approximately a \$1.2 million change in material cost.

### Item 4. Controls and Procedures

#### Disclosure Controls and Procedures

Our principal executive officer and principal financial officer have concluded, based on their evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934), as of the end of the period covered by this Report, that our disclosure controls and procedures are effective to ensure that the information we are required to disclose in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure and that such information is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC.

There was no change in our internal control over financial reporting during the quarter ended September 30, 2014 that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings

We are from time to time involved in various other legal proceedings, either as a defendant or plaintiff, most of which are routine litigation in the normal course of business. We believe that the resolution of the legal proceedings in which we are involved will not have a material adverse effect on our financial position or results of operations.

### Item 1A. Risk Factors

In evaluating an investment in our common stock, investors should consider carefully, among other things, the risk factors previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K filed with the SEC for the year ended December 31, 2013, as well as the information contained in this Quarterly Report and our other reports and registration statements filed with the SEC. There have been no material changes in the risk factors as previously

disclosed under “Risk Factors” in Part I, Item 1A of our Annual Report on Form 10-K with the SEC for the year ended December 31, 2013.

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## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

In July 2010, our Board of Directors approved a common stock purchase plan to purchase \$40.0 million of our common stock. This plan has no expiration date. We are not obligated to make any purchases under our stock purchase program. Subject to applicable state and federal corporate and securities laws, purchases under a stock purchase program may be made at such times and in such amounts as we deem appropriate. Purchases made under our stock purchase program can be discontinued at any time we feel additional purchases are not warranted.

The following is a summary of our stock repurchasing activity during the third quarter of 2014:

| Period                      | Shares<br>purchased | Average<br>price paid<br>per share | Shares<br>purchased as<br>part of a<br>publicly<br>announced<br>program | Approximate<br>dollar value that<br>may yet be<br>purchased under<br>the program |
|-----------------------------|---------------------|------------------------------------|-------------------------------------------------------------------------|----------------------------------------------------------------------------------|
| 07/01/2014 — 07/31/2014     | —                   | \$—                                | —                                                                       | \$ 22,522,000                                                                    |
| 08/01/2014 — 08/31/2014     | —                   | —                                  | —                                                                       | 22,522,000                                                                       |
| 09/01/2014 — 09/30/2014     | —                   | —                                  | —                                                                       | 22,522,000                                                                       |
| Third quarter of 2014 total | —                   | \$—                                | —                                                                       | \$ 22,522,000                                                                    |

## Item 6. Exhibits

|                 |                                                                                                                                 |
|-----------------|---------------------------------------------------------------------------------------------------------------------------------|
| Exhibit 3.1     | Amended and Restated Bylaws (1)                                                                                                 |
| Exhibit 10.1    | Employment Agreement between Registrant and George A. Lopez, M.D. effective October 21, 2013 (2)*                               |
| Exhibit 10.2    | Amended and Restated Retention Agreement between Registrant and George A. Lopez, M.D. effective October 21, 2013*               |
| Exhibit 31.1    | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                              |
| Exhibit 31.2    | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                              |
| Exhibit 32.1    | Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| Exhibit 101.INS | XBRL Instance Document                                                                                                          |
| Exhibit 101.SCH | XBRL Taxonomy Extension Schema Document                                                                                         |
| Exhibit 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document                                                                           |
| Exhibit 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document                                                                            |
| Exhibit 101.LAB | XBRL Taxonomy Extension Label Linkbase Document                                                                                 |

Exhibit 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

\* Executive compensation plan or other arrangement

(1) Filed as an Exhibit to Registrant's Current Report on Form 8-K filed July 25, 2014, and incorporated herein by reference.

(2) Filed as an Exhibit to Registrant's Quarterly Report on Form 10-Q filed August 8, 2014, and incorporated herein by reference.

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Signature

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

ICU Medical, Inc.

(Registrant)

/s/ Scott E. Lamb  
Scott E. Lamb  
Chief Financial Officer  
(Principal Financial Officer)

Date: November 10, 2014

Exhibit Index

|                 |                                                                                                                                 |
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