**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, 2021**
**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.: 001-34634**

**ICU MEDICAL, INC.**
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Delaware** | **33-0022692** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer 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 x No o

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an 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.

| | | | |
|---|---|---|---|
| Large accelerated filer | x | Accelerated filer o | |
| Non-accelerated filer o | | Smaller reporting company | ☐ |
| | | Emerging growth company | ☐ |

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. o

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

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Trading Symbol | Name of each exchange on which registered |
|---|---|---|
| Common stock, par value $0.10 per share | ICUI | The Nasdaq Stock Market LLC (Global Select Market) |

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

| Class | Outstanding at October 31, 2021 |
|---|---|
| Common | 21,239,119 |

**ICU MEDICAL, INC. AND SUBSIDIARIES**
**Form 10-Q**
**September 30, 2021**

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**PART I - FINANCIAL INFORMATION**

**Item1. Financial Statements (Unaudited)**

**ICU MEDICAL, INC. AND SUBSIDIARIES**
**CONDENSED CONSOLIDATED BALANCE SHEETS**
(In thousands, except par value data)

| | September 30, 2021 (Unaudited) | December 31, 2020 (1) |
|---|---|---|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 519,485 | $ 396,097 |
| Short-term investment securities | 18,009 | 14,687 |
| TOTAL CASH, CASH EQUIVALENTS AND INVESTMENT SECURITIES | 537,494 | 410,784 |
| Accounts receivable, net of allowance for doubtful accounts of $7,126 at September 30, 2021 and $21,490 at December 31, 2020 | 116,043 | 124,093 |
| Inventories | 291,601 | 314,928 |
| Prepaid income tax | 31,381 | 29,480 |
| Prepaid expenses and other current assets | 34,718 | 41,492 |
| TOTAL CURRENT ASSETS | 1,011,237 | 920,777 |
| PROPERTY AND EQUIPMENT, net | 458,041 | 466,628 |
| OPERATING LEASE RIGHT-OF-USE ASSETS | 40,979 | 46,571 |
| LONG-TERM INVESTMENT SECURITIES | 7,172 | 12,974 |
| GOODWILL | 32,760 | 33,001 |
| INTANGIBLE ASSETS, net | 192,778 | 197,231 |
| DEFERRED INCOME TAXES | 35,585 | 31,034 |
| OTHER ASSETS | 60,799 | 55,475 |
| TOTAL ASSETS | $ 1,839,351 | $ 1,763,691 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | $ 62,008 | $ 71,864 |
| Accrued liabilities | 94,133 | 97,021 |
| Income tax liability | 2,636 | 303 |
| Contingent earn-out liability | 26,300 | 26,300 |
| TOTAL CURRENT LIABILITIES | 185,077 | 195,488 |
| CONTINGENT EARN-OUT LIABILITY | 3,100 | — |
| OTHER LONG-TERM LIABILITIES | 40,853 | 47,835 |
| DEFERRED INCOME TAXES | 1,663 | 1,663 |
| INCOME TAX LIABILITY | 18,686 | 16,440 |
| COMMITMENTS AND CONTINGENCIES (Note 18) | — | — |
| STOCKHOLDERS' EQUITY: | | |
| 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 — 21,238 shares at September 30, 2021 and 21,058 shares at December 31, 2020 and outstanding — 21,238 shares at September 30, 2021 and 21,058 shares at December 31, 2020 | 2,124 | 2,106 |
| Additional paid-in capital | 711,152 | 693,068 |
| Treasury stock, at cost (237 and 209 shares, respectively) | (48) | (39) |
| Retained earnings | 891,862 | 808,652 |
| Accumulated other comprehensive loss | (15,118) | (1,522) |
| TOTAL STOCKHOLDERS' EQUITY | 1,589,972 | 1,502,265 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $ 1,839,351 | $ 1,763,691 |

(1) December 31, 2020 balances were derived from audited consolidated financial statements.

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

**ICU MEDICAL, INC. AND SUBSIDIARIES**
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)**
(In thousands, except per share data)

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| TOTAL REVENUES | $ 336,060 | $ 318,567 | $ 975,783 | $ 950,553 |
| COST OF GOODS SOLD | 208,269 | 204,643 | 611,783 | 608,930 |
| GROSS PROFIT | 127,791 | 113,924 | 364,000 | 341,623 |
| OPERATING EXPENSES: | | | | |
| Selling, general and administrative | 74,815 | 70,854 | 221,127 | 210,401 |
| Research and development | 12,238 | 10,126 | 34,332 | 31,151 |
| Restructuring, strategic transaction and integration | 2,358 | 4,114 | 8,994 | 22,903 |
| Change in fair value of contingent earn-out | — | 4,300 | — | 7,000 |
| Contract settlement | — | (1,000) | 127 | (975) |
| TOTAL OPERATING EXPENSES | 89,411 | 88,394 | 264,580 | 270,480 |
| INCOME FROM OPERATIONS | 38,380 | 25,530 | 99,420 | 71,143 |
| INTEREST EXPENSE | (168) | (616) | (492) | (1,583) |
| OTHER (EXPENSE) INCOME, net | (287) | 1,252 | 921 | (2,175) |
| INCOME BEFORE INCOME TAXES | 37,925 | 26,166 | 99,849 | 67,385 |
| PROVISION FOR INCOME TAXES | (6,844) | (1,180) | (16,639) | (6,657) |
| NET INCOME | $ 31,081 | $ 24,986 | $ 83,210 | $ 60,728 |
| NET INCOME PER SHARE | | | | |
| Basic | $ 1.47 | $ 1.19 | $ 3.93 | $ 2.91 |
| Diluted | $ 1.43 | $ 1.16 | $ 3.83 | $ 2.82 |
| WEIGHTED AVERAGE NUMBER OF SHARES | | | | |
| Basic | 21,214 | 20,948 | 21,189 | 20,870 |
| Diluted | 21,730 | 21,556 | 21,735 | 21,561 |

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

**ICU MEDICAL, INC. AND SUBSIDIARIES**
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)**
(In thousands)

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| NET INCOME | $ 31,081 | $ 24,986 | $ 83,210 | $ 60,728 |
| Other comprehensive (loss) income, net of tax: | | | | |
| Cash flow hedge adjustments, net of taxes of $259 and $(321) for the three months ended September 30, 2021 and 2020, respectively, and $668 and $256 for the nine months ended September 30, 2021 and 2020, respectively | (819) | 1,016 | (2,116) | (810) |
| Foreign currency translation adjustment, net of taxes of $0 for all periods | (5,360) | 6,626 | (11,516) | 754 |
| Other adjustments, net of taxes of $0 for all periods | 12 | 3 | 36 | (75) |
| Other comprehensive (loss) income, net of taxes | (6,167) | 7,645 | (13,596) | (131) |
| TOTAL COMPREHENSIVE INCOME | $ 24,914 | $ 32,631 | $ 69,614 | $ 60,597 |

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

## ICU MEDICAL, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS’ EQUITY (Unaudited)

(Amounts in thousands)

| | Common Stock | | | | | | |
|---|---|---|---|---|---|---|---|
| | Shares | Amount | Additional Paid-in Capital | Treasury Stock | Retained Earnings | Accumulated Other Comprehensive Loss | Total |
| **Balance, January 1, 2021** | **21,058** | **$ 2,106** | **$ 693,068** | **$ (39)** | **$ 808,652** | **$ (1,522)** | **$ 1,502,265** |
| Issuance of restricted stock and exercise of stock options | 198 | 16 | 2,496 | 2,352 | — | — | 4,864 |
| Tax withholding payments related to net share settlement of equity awards | (37) | — | — | (7,723) | — | — | (7,723) |
| Stock compensation | — | — | 6,022 | — | — | — | 6,022 |
| Other comprehensive loss, net of tax | — | — | — | — | — | (8,391) | (8,391) |
| Net income | — | — | — | — | 23,731 | — | 23,731 |
| **Balance, March 31, 2021** | **21,219** | **$ 2,122** | **$ 701,586** | **$ (5,410)** | **$ 832,383** | **$ (9,913)** | **$ 1,520,768** |
| Issuance of restricted stock and exercise of stock options | — | — | (2,685) | 3,237 | — | — | 552 |
| Tax withholding payments related to net share settlement of equity awards | — | — | — | (96) | — | — | (96) |
| Stock compensation | — | — | 6,681 | — | — | — | 6,681 |
| Other comprehensive income, net of tax | — | — | — | — | — | 962 | 962 |
| Net income | — | — | — | — | 28,398 | — | 28,398 |
| **Balance, June 30, 2021** | **21,219** | **$ 2,122** | **$ 705,582** | **$ (2,269)** | **$ 860,781** | **$ (8,951)** | **$ 1,557,265** |
| Issuance of restricted stock and exercise of stock options | 20 | 2 | (963) | 2,511 | — | — | 1,550 |
| Tax withholding payments related to net share settlement of equity awards | (1) | — | — | (290) | — | — | (290) |
| Stock compensation | — | — | 6,533 | — | — | — | 6,533 |
| Other comprehensive loss, net of tax | — | — | — | — | — | (6,167) | (6,167) |
| Net income | — | — | — | — | 31,081 | — | 31,081 |
| **Balance, September 30, 2021** | **21,238** | **$ 2,124** | **$ 711,152** | **$ (48)** | **$ 891,862** | **$ (15,118)** | **$ 1,589,972** |

| | Common Stock | | | | | | |
|---|---|---|---|---|---|---|---|
| | Shares | Amount | Additional Paid-in Capital | Treasury Stock | Retained Earnings | Accumulated Other Comprehensive Loss | Total |
| **Balance, January 1, 2020** | **20,742** | **$ 2,074** | **$ 668,947** | **$ (157)** | **$ 721,782** | **$ (15,402)** | **$ 1,377,244** |
| Issuance of restricted stock and exercise of stock options | 155 | 9 | (10,207) | 10,758 | — | — | 560 |
| Tax withholding payments related to net share settlement of equity awards | (64) | — | — | (12,174) | — | — | (12,174) |
| Stock compensation | — | — | 6,939 | — | — | — | 6,939 |
| Other comprehensive loss, net of tax | — | — | — | — | — | (13,510) | (13,510) |
| Net income | — | — | — | — | 16,834 | — | 16,834 |
| **Balance, March 31, 2020** | **20,833** | **$ 2,083** | **$ 665,679** | **$ (1,573)** | **$ 738,616** | **$ (28,912)** | **$ 1,375,893** |
| Issuance of restricted stock and exercise of stock options | 106 | 11 | 4,408 | 1,820 | — | — | 6,239 |
| Tax withholding payments related to net share settlement of equity awards | (2) | — | — | (387) | — | — | (387) |
| Stock compensation | — | — | 5,410 | — | — | — | 5,410 |
| Other comprehensive income, net of tax | — | — | — | — | — | 5,734 | 5,734 |
| Net income | — | — | — | — | 18,908 | — | 18,908 |
| **Balance, June 30, 2020** | **20,937** | **$ 2,094** | **$ 675,497** | **$ (140)** | **$ 757,524** | **$ (23,178)** | **$ 1,411,797** |
| Issuance of restricted stock and exercise of stock options | 33 | 3 | 1,564 | 220 | — | — | 1,787 |
| Tax withholding payments related to net share settlement of equity awards | (1) | — | — | (260) | — | — | (260) |
| Stock compensation | — | — | 6,265 | — | — | — | 6,265 |
| Other comprehensive income, net of tax | — | — | — | — | — | 7,645 | 7,645 |
| Net income | — | — | — | — | 24,986 | — | 24,986 |
| **Balance, September 30, 2020** | **20,969** | **$ 2,097** | **$ 683,326** | **$ (180)** | **$ 782,510** | **$ (15,533)** | **$ 1,452,220** |

**ICU MEDICAL, INC. AND SUBSIDIARIES**
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)**
(In thousands)

| | Nine months ended September 30, 2021 | Nine months ended September 30, 2020 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | $ 83,210 | $ 60,728 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 66,564 | 64,037 |
| Noncash lease expense | 7,165 | 6,859 |
| Provision for doubtful accounts | 342 | 2,785 |
| Provision for warranty and returns | 752 | (1,296) |
| Stock compensation | 19,236 | 18,614 |
| Loss on disposal of property and equipment and other assets | 1,083 | 1,673 |
| Bond premium amortization | 514 | 126 |
| Debt issuance costs amortization | 216 | 216 |
| Change in fair value of contingent earn-out | — | 7,000 |
| Product-related charges | 3,380 | 2,626 |
| Usage of spare parts | 9,831 | 8,391 |
| Other | 2,908 | 2,523 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 3,807 | 38,933 |
| Inventories | 16,510 | 8,859 |
| Prepaid expenses and other assets | 3,557 | (6,535) |
| Other assets | (13,593) | (12,121) |
| Accounts payable | (10,374) | (38,032) |
| Accrued liabilities | (8,317) | (20,417) |
| Income taxes, including excess tax benefits and deferred income taxes | (1,874) | (743) |
| Net cash provided by operating activities | 184,917 | 144,226 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of property and equipment | (46,464) | (62,362) |
| Proceeds from sale of asset | 218 | 154 |
| Intangible asset additions | (10,216) | (6,325) |
| Investments in non-marketable equity investments | (3,250) | — |
| Purchases of investment securities | (10,034) | (9,603) |
| Proceeds from sale of investment securities | 12,000 | 20,900 |
| Net cash used in investing activities | (57,746) | (57,236) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from short-term debt | — | 150,000 |
| Repayment of short-term debt | — | (150,000) |
| Proceeds from exercise of stock options | 6,966 | 8,586 |
| Payments on finance leases | (448) | (231) |
| Tax withholding payments related to net share settlement of equity awards | (8,109) | (12,821) |
| Net cash used in financing activities | (1,591) | (4,466) |
| Effect of exchange rate changes on cash | (2,192) | (201) |
| NET INCREASE CASH AND CASH EQUIVALENTS | 123,388 | 82,323 |
| CASH AND CASH EQUIVALENTS, beginning of period | 396,097 | 268,670 |
| CASH AND CASH EQUIVALENTS, end of period | $ 519,485 | $ 350,993 |

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

**ICU MEDICAL, INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited) - CONTINUED**
(In thousands)

| | Nine months ended September 30, | |
|---|---|---|
| | **2021** | **2020** |
| SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING ACTIVITIES: | | |
| Accounts payable for property and equipment | $ 2,897 | $ 3,633 |
| Non-compete agreement with associated contingent earn-out liability | $ 3,100 | $ — |

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

**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 ("U.S.") 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., ("ICU") a Delaware corporation, filed with the SEC for the year ended December 31, 2020.

We are engaged in the development, manufacturing and sale of innovative medical products used in vascular therapy and critical care applications. We sell the majority of our products through our direct sales force and through independent distributors throughout the U.S. and internationally. Additionally, we sell our products on an original equipment manufacturer basis to other medical device manufacturers. All subsidiaries are wholly owned and are included in the condensed consolidated financial statements. All intercompany balances and transactions have been eliminated.

**Note 2: New Accounting Pronouncements**

*Recently Issued Accounting Standards*

In March 2020, the FASB issued ASU No. 2020-04, Reference Rate Reform (Topic 848) - Facilitation of the Effects of Reference Rate Reform on Financial Reporting. The amendments in this update provide optional guidance for a limited period of time to ease the potential burden for reference rate reform on financial reporting. Due to concerns about structural risks of interbank offered rates and, particularly, the risk of cessation of the London Interbank Offered Rate ("LIBOR"), regulators around the world have undertaken reference rate reform initiatives to identify alternative reference rates that are more observable or transaction based and less susceptible to manipulation. The amendments in this update apply only to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued as a result of reference rate reform. Optional expedients may be applied to contracts that are modified as a result of the reference rate reform. Modifications of contracts within the scope of Topic 470, Debt, should be accounted for by prospectively adjusting the effective interest rate. Modifications of contracts within the scope of ASC 842, Leases, should be accounted for as a continuation of the existing contracts with no reassessments of the lease classification and the discount rate (incremental borrowing rate). Exceptions to Topic 815, Derivatives and Hedging, results in not having a dedesignation of a hedging relationship if certain criteria are met. The amendments in this ASU are effective for all entities as of March 12, 2020 through December 31, 2022. The impact of this ASU on our contracts has not been material.

**Note 3: Restructuring, Strategic Transaction and Integration**

Restructuring, strategic transaction and integration expenses were $2.4 million and $9.0 million for the three and nine months ended September 30, 2021 respectively, as compared to $4.1 million and $22.9 million for the three and nine months ended September 30, 2020 respectively.

*Restructuring*

During the third quarter we adjusted certain facility restructuring liabilities by $2.0 million, shown in the table below under "other adjustments", to reflect actual amounts owed which resulted in net restructuring credits of $(1.9) million and $(1.8) million, for the three and nine months ended September 30, 2021, respectively. During the three and nine months ended September 30, 2020 restructuring charges were $0.0 million and $8.1 million, respectively. Restructuring charges for the three and nine months ended September 30, 2020 were primarily related to severance charges and costs related to office and other facility closures. Restructuring charges are included in the above restructuring, strategic transaction and integration expenses in our condensed consolidated statement of operations.

The following table summarizes the details of changes in our restructuring-related accrual for the period ended September 30, 2021 (in thousands):

| | Accrued Balance January 1, 2021 | Charges Incurred | Payments | Currency Translation | Other Adjustments(1) | Accrued Balance September 30, 2021 |
|---|---|---|---|---|---|---|
| Severance pay and benefits | $ 1,858 | $ 143 | $ (872) | $ (3) | $ (528) | $ 598 |
| Facility closure expenses | 1,563 | — | — | 31 | (1,429) | 165 |
| | $ 3,421 | $ 143 | $ (872) | $ 28 | $ (1,957) | $ 763 |

(1) The estimated liabilities related to a prior year's facility closure restructuring were adjusted to actual amounts owed during the third quarter ended September 30, 2021.

We expect to pay our unpaid restructuring charges as of September 30, 2021 by the end of the year.

*Strategic transaction and integration expenses*

We incurred and expensed $4.3 million and $10.8 million in strategic transaction and integration expenses during the three and nine months ended September 30, 2021, as compared to $4.1 million and $14.8 million during the three and nine months ended September 30, 2020, respectively, which are included in restructuring, strategic transaction and integration expenses in our condensed consolidated statement of operations. The strategic transaction and integration expenses during the three months ended September 30, 2021 were primarily related to transaction expenses incurred related to entering into a definitive agreement to acquire Smiths Medical 2020 Limited ("Smiths") (see Note 20: Acquisitions). The strategic transaction and integration expenses for the nine months ended September 30, 2021 were primarily related to integration costs associated with acquisitions, the Hospira Infusion Systems ("HIS") earn-out dispute with Pfizer, one-time costs incurred to comply with regulatory initiatives and the transaction costs related to the Smiths transaction. The strategic transaction and integration expenses during the three and nine months ended September 30, 2020 were primarily related to the integration of the HIS business acquired in 2017 from Pfizer, which included the migration of IT systems at our Austin facility.

**Note 4: Revenue**

Our primary product lines are Infusion Consumables, Infusion Systems, IV Solutions and Critical Care. The vast majority of our sales of these products are made on a stand-alone basis to hospitals and distributors. Revenue is typically recognized upon transfer of control of the products, which we deem to be at point of shipment. However, for purposes of revenue recognition for our software licenses and renewals, we consider the control of these products to be transferred to a customer at a certain point in time; therefore, we recognize revenue at the start of the applicable license term.

Payment is typically due in full within 30 days of delivery or the start of the contract term. Revenue is recorded in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. We offer certain volume-based rebates to our distribution customers, which we record as variable consideration when calculating the transaction price. Rebates are offered on both a fixed and tiered/variable basis. In both cases, we use information available at the time and our historical experience with each customer to estimate the most likely rebate amount. We also provide chargebacks to distributors that sell to end-customers at prices determined under a contract between us and the end-customer. Chargebacks are the difference between the prices we charge our distribution customers and the contracted prices we have with the end customer which are processed as credits to our distribution customers. In estimating the expected value of chargeback amounts in order to determine the transaction price, we use information available at the time, including our historical experience.

We also warranty products against defects and have a policy permitting the return of defective products, for which we accrue and expense at the time of sale using information available at that time and our historical experience. We also provide for extended service-type warranties, which we consider to be separate performance obligations. We allocate a portion of the transaction price to the extended service-type warranty based on its estimated relative selling price, and recognize revenue over the period the warranty service is provided. Our revenues are recorded at the net sales price, which includes an estimate for variable consideration related to rebates, chargebacks and product returns.

*Revenue disaggregated*

The following table represents our revenues disaggregated by geography (in thousands):

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| **Geography** | **2021** | **2020** | **2021** | **2020** |
| Europe, the Middle East and Africa | $ 36,239 | $ 32,596 | $ 108,800 | $ 99,107 |
| Other Foreign | 54,523 | 48,525 | 169,667 | 175,618 |
| Total Foreign | 90,762 | 81,121 | 278,467 | 274,725 |
| United States | 245,298 | 237,446 | 697,316 | 675,828 |
| **Total Revenues** | $ 336,060 | $ 318,567 | $ 975,783 | $ 950,553 |

The following table represents our revenues disaggregated by product line (in thousands):

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| **Product line** | **2021** | **2020** | **2021** | **2020** |
| Infusion Consumables | $ 144,850 | $ 116,054 | $ 407,419 | $ 350,554 |
| Infusion Systems | 90,688 | 88,388 | 259,683 | 267,856 |
| IV Solutions | 89,237 | 101,900 | 271,834 | 295,369 |
| Critical Care | 11,285 | 12,225 | 36,847 | 36,774 |
| **Total Revenues** | $ 336,060 | $ 318,567 | $ 975,783 | $ 950,553 |

*Contract balances*

The following table presents our changes in the contract balances for the nine months ended September 30, 2021 and 2020 (in thousands):

| | **Contract Liabilities** |
|---|---|
| Beginning balance, January 1, 2021 | $ (6,430) |
| Equipment revenue recognized | 7,193 |
| Equipment revenue deferred due to implementation | (8,652) |
| Software revenue recognized | 6,194 |
| Software revenue deferred due to implementation | (2,967) |
| Ending balance, September 30, 2021 | $ (4,662) |
| | |
| Beginning balance, January 1, 2020 | $ (4,855) |
| Equipment revenue recognized | 9,920 |
| Equipment revenue deferred due to implementation | (13,679) |
| Software revenue recognized | 4,715 |
| Software revenue deferred due to implementation | (5,033) |
| Ending balance, September 30, 2020 | $ (8,932) |

As of September 30, 2021, revenue from remaining performance obligations related to implementation of software and equipment is $3.3 million. We expect to recognize substantially all of this revenue within the next three to six months dependent on implementation restrictions due to the novel coronavirus and its variants ("COVID-19"). Revenue from remaining performance obligations related to annual software licenses is $1.3 million. We expect to recognize substantially all of this revenue over the next twelve months.

**Note 5: Leases**

*Leases*

We determine if an arrangement is a lease at inception. Our operating lease assets are separately stated in operating lease right-of-use ("ROU") assets and our financing lease assets are included in other assets on our condensed consolidated balance sheets. Our lease liabilities are included in accrued liabilities, and other long-term liabilities on our condensed consolidated balance sheets. We have elected not to recognize an ROU asset and lease liability for leases with terms of twelve months or less.

Lease ROU assets and lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. Most of our leases do not provide an implicit rate, therefore we use our incremental borrowing rate, which is the rate incurred to borrow on a collateralized basis over a similar term based on the information available at commencement date. Our lease ROU assets exclude lease incentives and initial direct costs incurred. Our lease terms include options to extend when it is reasonably certain that we will exercise that option. All of our leases have stated lease payments, which may include fixed rental increases. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term.

Our leases are for corporate, research and development and sales and support offices, a distribution facility, device service centers and certain equipment. Our leases have original lease terms of one year to fifteen years, some of which include options to extend the leases for up to an additional five years. For all of our leases, we do not include optional periods of extension in our current lease terms for the exercise of options to extend is not reasonably certain.

The following table presents the components of our lease cost (in thousands):

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Operating lease cost | $ 2,798 | $ 2,861 | $ 8,455 | $ 8,428 |
| Finance lease cost - interest | 29 | 29 | 92 | 62 |
| Finance lease cost - reduction of ROU asset | 166 | 125 | 478 | 252 |
| Short-term lease cost | 4 | 74 | 14 | 200 |
| Total lease cost | $ 2,997 | $ 3,089 | $ 9,039 | $ 8,942 |

Interest expense on our finance leases is included in other income (expense), net in our condensed consolidated statement of operations. The reduction of the operating and finance ROU assets is included as noncash lease expense in selling, general and administrative expenses in our condensed consolidated statement of operations.

The following table presents the supplemental cash flow information related to our leases (in thousands):

| | Nine months ended September 30, | |
|---|---|---|
| | 2021 | 2020 |
| Cash paid for amounts included in the measurement of lease liabilities: | | |
| Operating cash flows from operating leases | $ 8,461 | $ 7,303 |
| Operating cash flows from finance leases | $ 29 | $ 62 |
| Right-of-use assets obtained in exchange for lease obligations: | | |
| Operating leases | $ 1,394 | $ 20,264 |
| Finance leases | $ 373 | $ 2,870 |

The following table presents the supplemental balance sheet information related to our operating leases (in thousands, except lease term and discount rate):

| | As of September 30, 2021 | As of December 31, 2020 |
|---|---|---|
| **Operating leases** | | |
| Operating lease right-of-use assets | $ 40,979 | $ 46,571 |
| | | |
| Accrued liabilities | $ 8,669 | $ 8,740 |
| Other long-term liabilities | 35,478 | 41,019 |
| Total operating lease liabilities | $ 44,147 | $ 49,759 |
| | | |
| **Weighted Average Remaining Lease Term** | | |
| Operating leases | 6.2 years | 6.7 years |
| | | |
| **Weighted Average Discount Rate** | | |
| Operating leases | 4.98 % | 5.02 % |

The following table presents the supplemental balance sheet information related to our finance leases (in thousands, except lease term and discount rate):

| | As of September 30, 2021 | As of December 31, 2020 |
|---|---|---|
| **Financing leases** | | |
| Financing lease right-of-use assets | $ 2,690 | $ 2,915 |
| | | |
| Accrued liabilities | $ 624 | $ 554 |
| Other long-term liabilities | 2,122 | 2,388 |
| Total financing lease liabilities | $ 2,746 | $ 2,942 |
| | | |
| **Weighted Average Remaining Lease Term** | | |
| Financing leases | 5.8 years | 6.4 years |
| | | |
| **Weighted Average Discount Rate** | | |
| Financing leases | 4.27 % | 4.27 % |

As of September 30, 2021, the maturities of our operating and financing lease liabilities for each of the next five years is approximately (in thousands):

| | Operating Leases | Finance Leases |
|---|---|---|
| Remainder of 2021 | $ 2,783 | $ 182 |
| 2022 | 10,370 | 726 |
| 2023 | 9,194 | 726 |
| 2024 | 8,347 | 421 |
| 2025 | 4,999 | 225 |
| 2026 | 4,725 | 189 |
| Thereafter | 10,574 | 615 |
| Total Lease Payments | 50,992 | 3,084 |
| Less imputed interest | (6,845) | (338) |
| Total | $ 44,147 | $ 2,746 |

## Note 6: Net Income Per Share

Basic earnings per share is computed by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net income by the weighted-average number of common shares outstanding during the period plus dilutive securities. Dilutive securities include outstanding common stock options and unvested restricted stock units, 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 and restricted stock units that are anti-dilutive are not included in the treasury stock method calculation. There were 12,235 and 14,017 anti-dilutive securities for the three months ended September 30, 2021 and 2020, respectively. There were 12,132 and 12,182 anti-dilutive securities for the nine months ended September 30, 2021 and 2020, respectively.

The following table presents the calculation of net earnings per common share (“EPS”) — basic and diluted (in thousands, except per share data):

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Net income | $ 31,081 | $ 24,986 | $ 83,210 | $ 60,728 |
| Weighted-average number of common shares outstanding (for basic calculation) | 21,214 | 20,948 | 21,189 | 20,870 |
| Dilutive securities | 516 | 608 | 546 | 691 |
| Weighted-average common and common equivalent shares outstanding (for diluted calculation) | 21,730 | 21,556 | 21,735 | 21,561 |
| EPS — basic | $ 1.47 | $ 1.19 | $ 3.93 | $ 2.91 |
| EPS — diluted | $ 1.43 | $ 1.16 | $ 3.83 | $ 2.82 |

## Note 7: Derivatives and Hedging Activities

*Hedge Accounting and Hedging Program*

The purpose of our hedging program is to manage the foreign currency exchange rate risk on forecasted expenses denominated in currencies other than the functional currency of the operating unit. We do not issue derivatives for trading or speculative purposes.

To receive hedge accounting treatment, all hedging relationships are formally documented at the inception of the hedge, and the hedges must be highly effective in offsetting changes to future cash flows on hedged transactions. The par forward contract is designated and qualifies as a cash flow hedge. Our derivative instruments are recorded at fair value on the condensed consolidated balance sheets and are classified based on the instrument's maturity date. We record changes in the intrinsic value of the effective portion of the gain or loss on the derivative instrument as a component of Other Comprehensive Income and we reclassify that gain or loss into earnings in the same line item associated with the forecasted transaction and in the same period during which the hedged transaction affects earnings.

In March 2020, we entered into a one-year cross-currency par forward contract that extends our current hedge of a portion of our Mexico forecasted expenses denominated in Pesos ("MXN"). The total notional amount of this outstanding derivative as of September 30, 2021 was approximately 109.2 million MXN. The term of the one-year contract is November 3, 2020 to December 1, 2021. The derivative instrument matures in equal monthly amounts at a fixed forward rate of 24.26 MXN/USD.

In November 2018, we entered into a one-year cross-currency par forward contract that hedges of a portion of our Mexico forecasted expenses denominated in MXN. The term of the one-year hedge was November 1, 2019 to November 3, 2020. The derivative instrument matured in equal monthly amounts at a fixed forward rate of 22.109 MXN/USD.

The following table presents the fair values of our derivative instruments included within the Condensed Consolidated Balance Sheets as of September 30, 2021 and December 31, 2020 (in thousands):

| | Derivatives | | |
|---|---|---|---|
| | **Condensed Consolidated Balance Sheet Location** | **September 30, 2021** | **December 31, 2020** |
| *Derivatives designated as cash flow hedging instruments* | | | |
| Foreign exchange forward contract: | | | |
| | Prepaid expenses and other current assets | $ 772 | $ 3,555 |
| Total derivatives designated as cash flow hedging instruments | | $ 772 | $ 3,555 |

The following table presents the gain (loss) affecting the Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2021 and 2020 (in thousands):

| | **Line Item in the Condensed Consolidated Statements of Operations** | **Three months ended September 30,** | | **Nine months ended September 30,** | |
|---|---|---|---|---|---|
| | | **2021** | **2020** | **2021** | **2020** |
| *Derivatives designated as cash flow hedging instruments* | | | | | |
| Foreign exchange forward contracts | Cost of goods sold | $ 968 | $ (49) | $ 2,713 | $ 423 |

We recognized the following gains (losses) on our foreign exchange contracts designated as a cash flow hedge (in thousands):

| | **Amount of (Loss) Gain Recognized in Other Comprehensive Income on Derivatives** | | **Amount of Gain (Loss) Reclassified From Accumulated Other Comprehensive Income into Income** | | |
|---|---|---|---|---|---|
| | **Three months ended September 30,** | | | **Three months ended September 30,** | |
| | **2021** | **2020** | **Location of Gain (Loss) Reclassified From Accumulated Other Comprehensive Income into Income** | **2021** | **2020** |
| Derivatives designated as cash flow hedges: | | | | | |
| Foreign exchange forward contract | $ (109) | $ 1,287 | Cost of goods sold | $ 968 | $ (49) |
| Total derivatives designated as cash flow hedging instruments | $ (109) | $ 1,287 | | $ 968 | $ (49) |

| | Amount of Loss Recognized in Other Comprehensive Income on Derivatives | | Amount of Gain Reclassified From Accumulated Other Comprehensive Income into Income | | |
|---|---|---|---|---|---|
| | Nine months ended September 30, | | | Nine months ended September 30, | |
| | 2021 | 2020 | Location of Gain Reclassified From Accumulated Other Comprehensive Income into Income | 2021 | 2020 |
| Derivatives designated as cash flow hedges: | | | | | |
| Foreign exchange forward contract | $ (70) | $ (642) | Cost of goods sold | $ 2,713 | $ 423 |
| Total derivatives designated as cash flow hedging instruments | $ (70) | $ (642) | | $ 2,713 | $ 423 |

As of September 30, 2021, we expect approximately $0.7 million of the deferred gains on the outstanding derivatives in accumulated other comprehensive income to be reclassified to net income during the next three months concurrent with the underlying hedged transactions also being reported in net income.

## Note 8: Fair Value Measurement

Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. There are three levels of inputs that may be used to measure fair value:

- Level 1: quoted prices in active markets for identical assets or liabilities;
- Level 2: inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; or
- Level 3: unobservable inputs that are supported by little or no market activity and that are significant to the fair values of the assets or liabilities.

*Earn-out Liability*

In August 2021, we entered into an agreement with one of our international distributors whereby that distributor would not compete with us in a specific territory for a three-year period that will end in September 2024. The terms of the agreement include a contingent earn-out payment. The contingent earn-out payment shall not exceed $6.0 million, which will be earned based on certain revenue targets over a twelve-month measurement period determined by the highest four consecutive quarters commencing over a two-year period starting on the closing date of the agreement and provided that the distributor is in compliance with its obligations under the agreement. As of September 30, 2021, the fair value of the contingent earn-out is estimated at $3.1 million. The estimated fair value of the contingent earn-out was calculated using a probability-weighted cash flow model based on historical revenue streams and the likelihood that the revenue targets will be met.

In the fourth quarter of 2019, we recognized an earn-out liability related to the acquisition of Pursuit Vascular, Inc. ("Pursuit"). Pursuit's former equity holders were entitled up to $50.0 million in additional cash consideration contingent upon the achievement of certain sales and gross profit targets for specific customers. The earn-out was calculated as a percentage of gross profit achieved during the earn-out period against a pre-determined target gross profit, not to exceed $50.0 million. During the earn-out period, we used a Monte Carlo simulation model to determine the fair value of the earn-out liability. The Monte Carlo simulation model utilized multiple input variables to determine the value of the earn-out liability including historical volatility, a risk free interest rate, counter party credit risk and projected future gross profit (see the simulation input table below related to Pursuit). The historical volatility was based on the median of ICU and a certain peer group. The risk-free interest rate was equal to the yield, as of the valuation date, of the zero-coupon U.S. Treasury bill that was commensurate with the term of the earn-out. The counter party credit risk was based on a synthetic credit rating of B1. As of June 30, 2021, the earn-out measurement period ended. Based on the actual sales and gross profit achieved during the measurement period, we calculated the actual earn-out amount to be $26.3 million. The $26.3 million earn-out calculation was finalized and accepted by

Pursuit's former equity holders and was paid out in October 2021. The Pursuit earn-out liability was transferred out of Level 3 and into Level 2 as the amount of the actual payment in known.

Our contingent earn-out liabilities are separately stated in our condensed consolidated balance sheets.

The following tables provide a reconciliation of the Level 3 earn-out liabilities measured at estimated fair value (in thousands):

| | Earn-out Liability |
|---|---|
| **Accrued balance, January 1, 2021** | $ 26,300 |
| Change in fair value of earn-out (included in income from operations as a separate line item) | — |
| **Accrued balance, March 31, 2021** | $ 26,300 |
| Change in fair value of earn-out (included in income from operations as a separate line item) | — |
| **Accrued balance, June 30, 2021** | $ 26,300 |
| Contingent earn-out - non-compete arrangement | 3,100 |
| Transfer of Pursuit earn-out liability into Level 2 | (26,300) |
| **Accrued balance, September 30, 2021** | $ 3,100 |

| | Earn-out Liability |
|---|---|
| **Accrued balance, January 1, 2020** | $ 17,300 |
| Change in fair value of earn-out (included in income from operations as a separate line item) | — |
| **Accrued balance, March 31, 2020** | $ 17,300 |
| Change in fair value of earn-out (included in income from operations as a separate line item) | 2,700 |
| **Accrued balance, June 30, 2020** | $ 20,000 |
| Change in fair value of earn-out (included in income from operations as a separate line item) | 4,300 |
| **Accrued balance, September 30, 2020** | $ 24,300 |

The following tables provide quantitative information about Level 3 inputs for fair value measurement of our earn-out liabilities during the earn-out measurement period:

*Pursuit Earn-out*

| Simulation Input | As of December 31, 2020 | As of September 30, 2020 |
|---|---|---|
| Revenue/Gross Profit Volatility | 25.00 % | 35.00 % |
| Discount Rate | 12.50 % | 12.50 % |
| Risk Free Rate | 0.09 % | 0.12 % |
| Counter Party Risk | 3.10 % | 4.50 % |

*Investments and Foreign Currency Contracts*

The fair value of our investments is estimated using observable market-based inputs such as quoted prices, interest rates and yield curves or Level 2 inputs, which consisted of corporate bonds.

The fair value of our Level 2 forward currency contracts are estimated using observable market inputs such as known notional value amounts, spot and forward exchange rates. These inputs relate to liquid, heavily traded currencies with active markets which are available for the full term of the derivative.

Our assets and liabilities measured at fair value on a recurring basis consisted of the following Level 1, 2 and 3 inputs as defined above (in thousands):

| | Fair value measurements at September 30, 2021 | | | |
|---|---|---|---|---|
| | Total carrying value | Quoted prices in active markets for identical assets (level 1) | Significant other observable inputs (level 2) | Significant unobservable inputs (level 3) |
| Assets: | | | | |
| Available for sale securities: | | | | |
| Short-term | $ 18,009 | $ — | $ 18,009 | $ — |
| Long-term | 7,172 | — | 7,172 | — |
| Foreign exchange forwards: | | | | |
| Prepaid expenses and other current assets | 772 | — | 772 | — |
| Total Assets | $ 25,953 | $ — | $ 25,953 | $ — |
| Liabilities: | | | | |
| Earn-out liability | $ 29,400 | $ — | $ 26,300 | $ 3,100 |
| Total Liabilities | $ 29,400 | $ — | $ 26,300 | $ 3,100 |

| | Fair value measurements at December 31, 2020 | | | |
|---|---|---|---|---|
| | Total carrying value | Quoted prices in active markets for identical assets (level 1) | Significant other observable inputs (level 2) | Significant unobservable inputs (level 3) |
| Assets: | | | | |
| Available for sale securities: | | | | |
| Short-term | $ 14,687 | $ — | $ 14,687 | $ — |
| Long-term | 12,974 | — | 12,974 | — |
| Foreign exchange forwards: | | | | |
| Prepaid expenses and other current assets | 3,555 | — | 3,555 | — |
| Total Assets | $ 31,216 | $ — | $ 31,216 | $ — |
| Liabilities: | | | | |
| Earn-out liability | $ 26,300 | $ — | $ — | $ 26,300 |
| Total Liabilities | $ 26,300 | $ — | $ — | $ 26,300 |

**Note 9: Investment Securities**

*Investments in Available-for-sale Securities*

Our available-for-sale investment securities currently consist of short-term and long-term corporate bonds and are considered “investment grade” and carried at fair value. Available-for-sale securities are recorded at fair value, and unrealized holding gains and losses are recorded, net of tax, as a component of accumulated other comprehensive income. Unrealized losses on available-for-sale securities are charged against net earnings when a decline in fair value is determined to be other than temporary. Our management reviews several factors to determine whether a loss is other than temporary, such as the length and extent of the fair value decline, the financial condition and near term prospects of the issuer, and for equity investments, our intent and ability to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value. The amortized cost of the debt securities are adjusted for the amortization of premiums computed under the effective interest method. Such amortization is included in investment income in other income (expense), net on our condensed consolidated statements of operations. There have been no realized gains or losses on their disposal. Realized gains and losses are accounted for on the specific identification method. The scheduled maturities of the debt securities are between 2021 and 2024. All short-term investment securities are callable within one year.

Our short and long-term investments in available-for-sale securities consisted of the following (in thousands):

| | As of September 30, 2021 | | |
|---|---|---|---|
| | Amortized Cost | Unrealized Holding Gains (Losses) | Fair Value |
| Short-term corporate bonds | $ 18,009 | $ — | $ 18,009 |
| Long-term corporate bonds | 7,172 | — | 7,172 |
| Total investment securities | $ 25,181 | $ — | $ 25,181 |

| | As of December 31, 2020 | | |
|---|---|---|---|
| | Amortized Cost | Unrealized Holding Gains (Losses) | Fair Value |
| Short-term corporate bonds | $ 14,687 | $ — | $ 14,687 |
| Long-term corporate bonds | 12,974 | — | 12,974 |
| Total investment securities | $ 27,661 | $ — | $ 27,661 |

*Investments in Non-Marketable Equity Securities*

In September 2021, we acquired approximately a 20% non-marketable equity interest in a nonpublic company and entered into a three-year distribution agreement where we have the exclusive rights to market, sell and distribute the company's products in exchange for a cash payment of $3.3 million. In addition, we were granted an exclusive license for all of the sellers intellectual property. At the expiration of the distribution agreement we have the right but not the obligation to acquire the remaining interest in the business.

We apply the equity method of accounting for investments when we determine we have a significant influence, but not a controlling interest in the investee. We determine whether we have significant influence by considering key factors such as ownership interest, representation on the board of directors, participation in policy making decisions, business relationship and material intercompany transactions, among other factors. Our equity method investment is reported at cost and adjusted each period for our share of the investee's income or (loss) and dividend paid, if any. We eliminate any intra-entity profits to the extent of our beneficial interest. We record our share of the investee's income or (loss) on a one quarter lag. We report our proportionate share of the investee's income or (loss) resulting from this investment in "other income (expense), net" in our Condensed Consolidated Statements of Operations. The carrying value of our equity method investment is reported in "Other Assets" in our Condensed Consolidated Balance Sheets (see Note 10, Prepaid Expenses and Other Current Assets and Other Assets). We assess our equity method investments for impairment on an annual basis or whenever events or circumstances indicate that the carrying value of the investment may not be recoverable. We have not recorded any income or (loss) resulting for this investment as of September 30, 2021.

Our non-marketable equity method investments consisted of the following (in thousands):

| | As of September 30, 2021 | As of December 31, 2020 |
|---|---|---|
| Equity method investments | $ 3,250 | $ — |

**Note 10: Prepaid Expenses and Other Current Assets and Other Assets**

Prepaid expenses and other current assets consist of the following (in thousands):

| | September 30, 2021 | December 31, 2020 |
|---|---|---|
| Other prepaid expenses and receivables | $ 17,175 | $ 14,964 |
| Deferred costs | 5,676 | 6,402 |
| Prepaid insurance and property taxes | 968 | 6,178 |
| VAT/GST receivable | 2,562 | 3,676 |
| Deferred tax charge | 4,130 | 3,542 |
| Foreign exchange forward contract | 772 | 3,555 |
| Deposits | 1,317 | 1,353 |
| Other | 2,118 | 1,822 |
| | $ 34,718 | $ 41,492 |

Other assets consist of the following (in thousands):

| | September 30, 2021 | December 31, 2020 |
|---|---|---|
| Pump lease receivables | $ 27,043 | $ 28,948 |
| Spare parts | 26,486 | 22,725 |
| Equity method investments | 3,250 | — |
| Financed lease assets | 2,690 | 2,915 |
| Other | 1,330 | 887 |
| | 60,799 | 55,475 |

**Note 11: Inventories**

Inventories are stated at the lower of cost or net realizable value with cost determined using the first-in, first-out method. Inventory costs consist of those costs directly attributable to products prior to sale including among other things raw material, labor and overhead. Inventories consisted of the following (in thousands):

| | September 30, 2021 | December 31, 2020 |
|---|---|---|
| Raw materials | $ 119,552 | $ 126,499 |
| Work in process | 42,312 | 33,053 |
| Finished goods | 129,737 | 155,376 |
| Total inventories | $ 291,601 | $ 314,928 |

## Note 12: Property and Equipment

Property and equipment consisted of the following (in thousands):

| | September 30, 2021 | December 31, 2020 |
|---|---|---|
| Machinery and equipment | $ 310,651 | $ 291,331 |
| Land, building and building improvements | 242,786 | 241,199 |
| Molds | 60,380 | 60,381 |
| Computer equipment and software | 99,781 | 98,311 |
| Furniture and fixtures | 7,686 | 7,767 |
| Instruments placed with customers[1] | 96,499 | 90,383 |
| Construction in progress | 61,890 | 53,724 |
| Total property and equipment, cost | 879,673 | 843,096 |
| Accumulated depreciation | (421,632) | (376,468) |
| Property and equipment, net | $ 458,041 | $ 466,628 |

[1] Instruments placed with customers consist of drug-delivery and monitoring systems placed with customers under operating leases.

Depreciation expense was $16.4 million and $49.1 million for the three and nine months ended September 30, 2021, respectively, as compared to $15.6 million and $46.7 million for the three and nine months ended September 30, 2020, respectively.

## Note 13: Goodwill and Intangible Assets, Net

*Goodwill*

The following table presents the changes in the carrying amount of our goodwill (in thousands):

| | Total |
|---|---|
| Balance as of January 1, 2021 | $ 33,001 |
| Currency translation | (241) |
| Balance as of September 30, 2021 | $ 32,760 |

*Intangible Assets, Net*

Intangible assets, carried at cost less accumulated amortization and amortized on a straight-lined basis, were as follows (in thousands):

| | Weighted Average Amortization Life in Years | September 30, 2021 Cost | Accumulated Amortization | Net |
|---|---|---|---|---|
| Patents | 10 | $ 26,751 | $ 16,322 | $ 10,429 |
| Customer contracts | 12 | 10,395 | 6,109 | 4,286 |
| Non-contractual customer relationships | 9 | 57,403 | 31,407 | 25,996 |
| Trademarks | 4 | 425 | 425 | — |
| Trade name | 15 | 18,259 | 4,421 | 13,838 |
| Developed technology | 13 | 152,893 | 46,291 | 106,602 |
| Non-compete | 3 | 9,600 | 1,597 | 8,003 |
| Total amortized intangible assets | | $ 275,726 | $ 106,572 | $ 169,154 |
| | | | | |
| Internally developed software* | | $ 23,624 | | $ 23,624 |
| | | | | |
| Total intangible assets | | $ 299,350 | $ 106,572 | $ 192,778 |

* Internally developed software will be amortized when the projects are complete and the assets are ready for their intended use.

| | Weighted Average Amortization Life in Years | December 31, 2020 Cost | Accumulated Amortization | Net |
|---|---|---|---|---|
| Patents | 10 | $ 24,797 | $ 15,056 | $ 9,741 |
| Customer contracts | 12 | 10,365 | 5,852 | 4,513 |
| Non-contractual customer relationships | 9 | 58,061 | 26,711 | 31,350 |
| Trademarks | 4 | 425 | 425 | — |
| Trade name | 15 | 18,270 | 3,500 | 14,770 |
| Developed technology | 13 | 152,893 | 36,927 | 115,966 |
| Non-compete | 3 | 2,500 | 972 | 1,528 |
| Total amortized intangible assets | | $ 267,311 | $ 89,443 | $ 177,868 |
| | | | | |
| Internally developed software* | | $ 19,363 | | $ 19,363 |
| | | | | |
| Total intangible assets | | $ 286,674 | $ 89,443 | $ 197,231 |

* Internally developed software will be amortized when the projects are complete and the assets are ready for their intended use.

Intangible assets with definite lives are amortized on a straight-line basis over their estimated useful lives. During the three and nine months ended September 30, 2021, respectively, intangible asset amortization expense was $5.8 million and $17.4 million, respectively, as compared to $5.8 million and $17.4 million for the three and nine months ended September 30, 2020, respectively.

As of September 30, 2021 estimated annual amortization for our intangible assets for each of the next five years is approximately (in thousands):

| | |
|---|---|
| Remainder of 2021 | $ 6,858 |
| 2022 | 25,311 |
| 2023 | 24,289 |
| 2024 | 23,607 |
| 2025 | 16,025 |
| 2026 | 15,255 |
| Thereafter | 57,809 |
| Total | $ 169,154 |

**Note 14: Accrued Liabilities and Other Long-Term Liabilities**

Accrued liabilities consist of the following (in thousands):

| | September 30, 2021 | December 31, 2020 |
|---|---|---|
| Salaries and benefits | $ 26,514 | $ 25,786 |
| Incentive compensation | 23,651 | 27,023 |
| Operating lease liability-ST | 8,669 | 8,740 |
| Accrued sales taxes | 2,704 | 2,146 |
| Restructuring accrual | 763 | 3,421 |
| Deferred revenue | 5,539 | 5,566 |
| Accrued other taxes | 3,627 | 3,540 |
| Accrued professional fees | 676 | 1,273 |
| Legal accrual | 1,362 | 900 |
| Distribution fees | 5,555 | 5,300 |
| Warranties and returns | 407 | 1,027 |
| Accrued freight | 8,384 | 6,784 |
| Other | 6,282 | 5,515 |
| | $ 94,133 | $ 97,021 |

Other long-term liabilities consist of the following (in thousands):

| | September 30, 2021 | December 31, 2020 |
|---|---|---|
| Operating lease liability-LT | $ 35,478 | $ 41,019 |
| Benefits | 1,109 | 1,183 |
| Accrued rent | 1,312 | 1,462 |
| Contract liabilities-LT | 236 | 337 |
| Financing lease liability-LT | 2,122 | 2,388 |
| Other | 596 | 1,446 |
| | $ 40,853 | $ 47,835 |

**Note 15: Income Taxes**

Income taxes were accrued at an estimated effective tax rate of 18% and 17% for the three and nine months ended September 30, 2021, respectively, as compared to 5% and 10% for the three and nine months ended September 30, 2020, respectively.

The effective tax rate for the three and nine months ended September 30, 2021 differs from the federal statutory rate of 21% principally because of the effect of the mix of U.S. and foreign incomes, state income taxes, global intangible low-taxed income ("GILTI"), foreign-derived intangible income ("FDII") and tax credits and the following discrete items recognized during the interim period:

- Excess tax benefits recognized on stock option exercises and the vesting of restricted stock units during the three and nine months ended September 30, 2021 of $1.1 million and $3.3 million, respectively.
- U.S. federal return-to-provision adjustments for the year ended December 31, 2020 primarily due to changes in estimates for GILTI, FDII, subpart F, and related foreign tax credits along with other prior period adjustments resulted in a tax provision of $1.1 million.

The effective tax rate for the three and nine months ended September 30, 2020 differs from the federal statutory rate of 21% principally because of the effect of the mix of U.S. and foreign incomes, state income taxes, GILTI, FDII, tax credits and the following discrete items recognized during the interim periods:

- Excess tax benefits recognized on stock option exercises and the vesting of restricted stock units during the three and nine months ended September 30, 2020 of $0.1 million and $3.6 million, respectively.
- The revaluation of the contingent consideration during the three and nine months ended September 30, 2020, which resulted in a tax benefit of $0.7 million and $1.1 million, respectively.
- U.S. federal and state return-to-provision adjustments net of related reserve changes for the year ended December 31, 2019 resulted in a tax benefit of $3.8 million primarily due to changes in estimates for GILTI, FDII, and related foreign tax credits.

## Note 16: Long-Term Obligations

*Five-year Senior Secured Revolving Credit Facility ("Credit Facility")*

On November 8, 2017, we entered into a Credit Facility with various lenders for $150.0 million, with Wells Fargo Bank, N.A. as the administrative agent, swingline lender and issuing lender. During March 2020, as a result of market uncertainty caused by COVID-19, we preemptively borrowed $150.0 million on our Credit Facility as a conservative measure to manage any potential short-term liquidity risk. In September 2020, we fully repaid the borrowings under our Credit Facility.

As of September 30, 2021, we had no borrowings and $150.0 million of availability under the Credit Facility. Principal payments on the revolving Credit Facility are made at our discretion with the unpaid amount due at maturity. The Credit Facility matures on November 8, 2022. Interest on borrowings under the Credit Facility, at our option, is based on the Base Rate plus applicable margin or the London Interbank Offered Rate ("LIBOR") plus applicable margin, see further details in Part II, Item 8, of our 2020 Annual Report on Form 10-K.

We expect to refinance our Credit Facility in full in connection with the consummation of the Smiths acquisition which is expected to close in early 2022. We expect to enter into senior secured credit facilities totaling approximately $2.2 billion at or near the closing of the Smiths acquisition which we anticipate will include a new revolving credit facility of $500.0 million (see Note 20: Acquisitions).

*Debt Covenants*

The Credit Facility contains certain financial covenants pertaining to Consolidated Fixed Charge Coverage and Consolidated Total Leverage Ratios. In addition, the Credit Facility has restrictions pertaining to limitations on debt, liens, negative pledges, loans, advances, acquisitions, other investments, dividends, distributions, redemptions, repurchases of equity interests, fundamental changes and asset sales and other dispositions, prepayments, redemptions and purchases of subordinated debt and other junior debt, transactions with affiliates, dividend and payment restrictions affecting subsidiaries, changes in line of business, fiscal year and accounting practices and amendment of organizational documents and junior debt documents.

The Consolidated Leverage Ratio is defined as the ratio of Consolidated Total Funded Indebtedness on such date, to Consolidated Adjusted EBITDA, as defined under the Credit Facility Agreement, for the most recently completed four fiscal quarters. The maximum Consolidated Leverage Ratio is not more than 3.00 to 1.00.

The Consolidated Fixed Charge Coverage Ratio is defined as the ratio of: (a) Consolidated Adjusted EBITDA less the sum of (i) capital expenditures, (ii) federal, state, local and foreign income taxes paid in cash and (iii) cash restricted payments made after the closing date, to (b) Consolidated Fixed Charges for the most recently completed four fiscal quarters, calculated on a pro forma basis. The minimum Consolidated Fixed Charge Coverage Ratio is 2.00 to 1.00.

We were in compliance with all financial covenants as of September 30, 2021.

**Note 17: Stockholders' Equity**

*Treasury Stock*

In August 2019, our Board of Directors approved a new share purchase plan to purchase up to $100.0 million of our common stock. This plan replaced our existing plan and has no expiration date. During the nine months ended September 30, 2021, we did not purchase any shares of our common stock under our stock purchase plans. As of September 30, 2021, all of the $100.0 million available for purchase was remaining under the plan. We are currently limited on share purchases in accordance with the terms and conditions of our Credit Facility (see Note 16: Long-Term Obligations).

For the nine months ended September 30, 2021, we withheld 39,371 shares of our common stock from employee vested restricted stock units in consideration for $8.1 million in payments made on the employee's behalf for their minimum statutory income tax withholding obligations. For the nine months ended September 30, 2020, we withheld 66,749 shares of our common stock from employee vested restricted stock units in consideration for $12.8 million in payments made on the employee's behalf for their minimum statutory income tax withholding obligations. Treasury stock is used to issue shares for stock option exercises, restricted stock grants and employee stock purchase plan stock purchases.

*Accumulated Other Comprehensive (Loss) Income*

The components of accumulated other comprehensive (loss) income ("AOCI"), net of tax, were as follows (in thousands):

| | Foreign Currency Translation Adjustments | Unrealized Gains on Cash Flow Hedges | Other Adjustments | Total |
|---|---|---|---|---|
| Balance as of January 1, 2021 | $ (4,381) | $ 2,784 | $ 75 | $ (1,522) |
| Other comprehensive (loss) income before reclassifications | (7,458) | (306) | 12 | (7,752) |
| Amounts reclassified from AOCI | — | (639) | — | (639) |
| Other comprehensive (loss) income | (7,458) | (945) | 12 | (8,391) |
| Balance as of March 31, 2021 | $ (11,839) | $ 1,839 | $ 87 | $ (9,913) |
| Other comprehensive income before reclassifications | 1,302 | 335 | 12 | 1,649 |
| Amounts reclassified from AOCI | — | (687) | — | (687) |
| Other comprehensive income | 1,302 | (352) | 12 | 962 |
| Balance as of June 30, 2021 | $ (10,537) | $ 1,487 | $ 99 | $ (8,951) |
| Other comprehensive income before reclassifications | (5,360) | (83) | 12 | (5,431) |
| Amounts reclassified from AOCI | — | (736) | — | (736) |
| Other comprehensive income | (5,360) | (819) | 12 | (6,167) |
| Balance as of September 30, 2021 | $ (15,897) | $ 668 | $ 111 | $ (15,118) |

| | Foreign Currency Translation Adjustments | Unrealized Gains on Cash Flow Hedges | Other Adjustments | Total |
|---|---|---|---|---|
| Balance as of January 1, 2020 | $ (17,310) | $ 1,880 | $ 28 | $ (15,402) |
| Other comprehensive loss before reclassifications | (10,477) | (2,426) | (81) | (12,984) |
| Amounts reclassified from AOCI | — | (526) | — | (526) |
| Other comprehensive loss | (10,477) | (2,952) | (81) | (13,510) |
| Balance as of March 31, 2020 | $ (27,787) | $ (1,072) | $ (53) | $ (28,912) |
| Other comprehensive income before reclassifications | 4,604 | 960 | 4 | 5,568 |
| Amounts reclassified from AOCI | — | 166 | — | 166 |
| Other comprehensive income | 4,604 | 1,126 | 4 | 5,734 |
| Balance as of June 30, 2020 | $ (23,183) | $ 54 | $ (49) | $ (23,178) |
| Other comprehensive income before reclassifications | 6,626 | 978 | 3 | 7,607 |
| Amounts reclassified from AOCI | — | 38 | — | 38 |
| Other comprehensive income | 6,626 | 1,016 | 3 | 7,645 |
| Balance as of September 30, 2020 | $ (16,557) | $ 1,070 | $ (46) | $ (15,533) |

**Note 18: Commitments and Contingencies**

*Legal Proceedings*

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 unsettled legal proceedings that we are involved with will have a material adverse impact on our financial position or results of operations.

*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 or other 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.

*Contingencies*

In August 2021, we entered into an agreement with one of our international distributors whereby that distributor would not compete with us in a specific territory for a three-year period that will end in September 2024. The terms of the agreement include a contingent earn-out payment. The contingent earn-out shall not exceed $6.0 million, which will be earned based on certain revenue targets over a twelve-month measurement period determined by the highest four consecutive quarters commencing over a two-year period starting on the closing date of the agreement and provided that the distributor is in compliance with its obligations under the agreement. As of September 30, 2021, the fair value of the contingent earn-out is estimated at $3.1 million.

During November 2019, we acquired Pursuit. Total consideration for the acquisition included a potential contractual earn-out of up to $50.0 million, to be paid to former Pursuit equity holders, calculated based upon the achievement of certain performance targets during the earn-out period. As of June 30, 2021, the earn-out measurement period had ended and based on the actual sales and gross profit achieved during the measurement period we calculated the actual earn-out to be $26.3 million. In October 2021, the $26.3 million earn-out was finalized and paid to the former Pursuit equity holders (see Note 8: Fair Value Measurement).

In 2017, we recognized an earn-out liability upon the acquisition of HIS from Pfizer. Pfizer was entitled to receive between $191.3 million and $225.0 million in additional cash consideration based on the achievement of certain performance targets for the combined company for the three years ending December 31, 2019. As of December 31, 2019 we determined we did not meet the necessary performance targets that would require payout of any of the HIS earn-out liability. Pfizer disputed our determination that the performance targets requiring payout of the HIS earn-out liability were not met, therefore the dispute entered into binding arbitration. In August 2021, the arbitrator concluded that the necessary performance targets that would require payout of the HIS earn-out were not met, and as a result Pfizer is not entitled to any payments in connection with the HIS earn-out liability.

*Commitments*

We have non-cancellable operating lease agreements where we are contractually obligated to pay certain lease payment amounts (see Note 5: Leases).

**Note 19: Collaborative and Other Arrangements**

On February 3, 2017, we entered into two Manufacturing and Supply Agreements ("MSAs"), (i) whereby Pfizer will manufacture and supply us with certain agreed upon products for an initial five-year term with a one-time two-year option to extend and (ii) whereby we will manufacture and supply Pfizer certain agreed upon products for a term of five or ten years depending on the product, also with a one-time two-year option to extend. The MSAs provide each party with mutually beneficial interests and both of the MSAs are to be jointly managed by both Pfizer and ICU. The initial supply price, which will be annually updated, is in full consideration for all costs associated with the manufacture, documentation, packaging and certification of the products. On January 1, 2021, we amended our MSA with Pfizer, whereby we manufacture and supply certain agreed upon products to Pfizer. The amendments included a change to the term of the agreement to end on December 31, 2024 with Pfizer's unilateral election to extend through December 31, 2025. Other changes to the terms of the MSA included (i) amendments to our level of supply of products to Pfizer, (ii) certain changes to our manufacturing lines, (iii) updates to our supply price with added volume price tiers for annual periods and (iv) certain minimum purchase requirements for certain products.

**Note 20: Acquisitions**

*Definitive Agreement to Purchase Smiths Medical 2020 Limited*

During September 2021, we entered into a definitive agreement to acquire Smiths Medical 2020 Limited ("Smiths"), the holding company of Smiths Group plc's global medical device business ("Smiths Group"). In accordance with the Share Sale and Purchase Agreement (the "Purchase Agreement") we will purchase the entire issued share capital of Smiths for approximately $1.9 billion in cash, the issuance of 2.5 million fully paid and non-assessable shares of our common stock, par value $0.10 per share and a potential contingent earn-out of $100.0 million in cash, which is to be based upon our common stock achieving a certain volume weighted average price for certain periods from closing to the third or fourth anniversary of closing. The transaction is anticipated to close in early 2022, however closing under the Purchase Agreement is conditional upon the approval of the shareholders of Smiths Group plc, certain antitrust conditions and foreign direct investment conditions, and the termination in accordance with its terms of the sale and purchase agreement between Smiths Group plc and Trulli Bidco Limited.

In connection with entering into the Purchase Agreement, in September 2021, we entered into a debt commitment letter with Wells Fargo Bank, National Association, Wells Fargo Securities, LLC and Barclays Bank PLC (the “Committed Parties”), pursuant to which, among other things, the Committed Parties will provide to us, at or near closing of the transaction, with senior secured credit facilities of up to $2.0 billion consisting of a term loan A facility of $850.0 million, a term loan B facility of $850 million and a revolving credit facility of $300.0 million. In October 2021, the debt commitment related to the term loan A and revolving credit facility was syndicated to a broader group of Committed Parties. As part of the syndication process, the size of the revolving credit facility was increased from $300.0 million to $500.0 million.

In connection with the issuance of the stock consideration to Smiths, we will at closing enter into a Shareholders Agreement (the “Shareholders Agreement”). The Shareholders Agreement will impose certain restrictions on Smiths including prohibiting certain transfers of the shares of our Stock issued (i) for 6 months following the closing of the transactions contemplated by the Purchase Agreement and (ii) to certain of our competitors and certain other parties, as well as customary standstill limitations. Under the Shareholders Agreement, Smiths will have the right to designate one individual for election to our board of directors so long as Smiths beneficially owns at least 5% of the total outstanding shares of our common stock.

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

The following information should be read in conjunction with the condensed consolidated financial statements and accompanying notes in this Form 10-Q, as well as the audited consolidated financial statements and related notes for the fiscal year ended December 31, 2020 included in our Annual Report on Form 10-K.

When used in this report, the terms "we," "us," and "our" refer to ICU Medical, Inc ("ICU") and its subsidiaries included in our condensed consolidated financial statements unless context requires otherwise.

### Business Overview

We are one of the world's leading pure-play infusion therapy companies with global operations and a wide-ranging product portfolio that includes IV solutions, IV smart pumps with pain management and safety software technology, dedicated and non-dedicated IV sets and needlefree connectors designed to help meet clinical, safety and workflow goals. In addition, we manufacture automated pharmacy IV compounding systems with workflow technology, closed systems transfer devices for preparing and administering hazardous IV drugs, and cardiac monitoring systems for critically ill patients.

Our primary customers are acute care hospitals, wholesalers, ambulatory clinics and alternate site facilities, such as clinics, home health care providers and long-term care facilities. We sell our products in more than 90 countries throughout the world.

We categorize our products into four main product lines: Infusion Consumables, Infusion Systems, IV Solutions and Critical Care. We have presented our financial results in accordance with these product lines, with our primary products in each line listed below.

*Definitive Agreement to Purchase Smiths Medical 2020 Limited*

In September 2021, we entered into a Share Sale and Purchase Agreement (the "Purchase Agreement") with Smiths Medical 2020 Limited ("Smiths"), the holding company of Smiths Group plc's global medical device business. We will purchase the entire issued share capital of Smiths Medical 2020 Limited for approximately $1.9 billion in cash, a potential contingent earn-out of $100.0 million and the issuance of 2.5 million fully paid and non-assessable shares of our common stock, par value $0.10 per share. In connection with entering into the Purchase Agreement, in September 2021, we entered into a debt commitment letter with Wells Fargo Bank, National Association, Wells Fargo Securities, LLC and Barclays Bank PLC (the "Committed Parties"), pursuant to which, among other things, the Committed Parties will provide to us, at or near closing of the transaction, with senior secured credit facilities of up to $2.0 billion consisting of a term loan A facility of $850.0 million, a term loan B facility of $850.0 million and a revolving credit facility of $300.0 million. In October 2021, the debt commitment related to the term loan A and revolving credit facility was syndicated to a broader group of Committed Parties. As part of the syndication process, the size of the revolving credit facility was increased from $300.0 million to $500.0 million.

### Operations Overview

***COVID-19***

The novel coronavirus and its variants ("COVID-19") continues to have an impact on our business operations. Our manufacturing, distribution and pump service facilities continue to operate under our business continuity plan and our precautionary safety measures implemented to maximize the safety of our employees and mitigate disruption of our business are still in effect. For greater detail on the above mentioned safety measures and a discussion of how future results may potentially be impacted by COVID-19 see Part II, Item 7, of our 2020 Annual Report on Form 10-K.

While we continually monitor the ongoing and evolving impact of the effect of the COVID-19 pandemic on our operations the overall impact will not be fully reflected in our results of operations until future periods. The duration and extent of the impact from the COVID-19 pandemic depends on future developments that cannot be fully predicted at this time, as such, the impact of the pandemic on our overall financial performance remain uncertain and cannot as yet be quantified.

***Infusion Consumables***

Infusion therapy sets, used in hospitals and ambulatory clinics, consist of a tube running from a bottle or plastic bag containing a solution to a catheter inserted in a patient's vein, that may or may not be used with an IV pump. Our primary Infusion Consumable products are:

- *Clave™ needlefree products*, including the MicroClave, MicroClave Clear, and NanoClave™ brand of connectors, accessories, extension and administration sets used for the administration of IV fluids and medications and the Neutron catheter patency device, used to help maintain patency of central venous catheters;

- *SwabCap* disinfecting cap, used to protect and disinfect any needlefree connector, including competitive brands of connectors;

- *ClearGuard HD* antimicrobial barrier caps for hemodialysis catheters; and

- *Tego™* hemodialysis connector used to cap and protect hemodialysis central venous catheter hubs;

*Closed System Transfer Devices ("CSTD") and hazardous drug compounding systems* are used to prepare and deliver hazardous IV medications such as those used in chemotherapy, which, if released, can have harmful effects on the healthcare worker and environment. Our products are:

- *ChemoLock™* CSTD which utilizes a proprietary needlefree connection method, is used for the preparation and administration of hazardous drugs. ChemoLock is used to limit the escape of hazardous drug or vapor concentrations, block the transfer of environmental contaminants into the system, and eliminates the risk of needlestick injury;

- *ChemoClave™*, an ISO Connection standard and universally compatible CSTD used for the preparation and administration of hazardous drugs. ChemoClave utilizes standard ISO luer locking connections, making it compatible with all brands of needlefree connectors and pump delivery systems. ChemoClave also is used to limit the escape of hazardous drug or vapor concentrations, block the transfer of environmental contaminants into the system, and eliminate the risk of needlestick injury; and

- *Diana™* hazardous drug compounding system, an automated sterile compounding system that incorporates ChemoClave and ChemoLock CSTD consumables and IV workflow technology for the accurate, safe, and efficient preparation of hazardous drugs. It is a user-controlled automated system that provides repeatable accuracy of drug mixes and minimizes clinician exposure to hazardous drugs while helping to maintain the sterility of the drugs being mixed.

The preparation of hazardous drugs typically takes place in a pharmacy where drugs are removed from vials and prepared for delivery to a patient. Those prepared drugs are then transferred to a nursing unit where the chemotherapy is administered via an infusion pump set to a patient. Components of the ChemoClave and ChemoLock product lines are used both in pharmacies and on the nursing floors for the preparation and administration of hazardous drugs.

***Infusion Systems***

We offer a wide range of infusion pumps, dedicated IV sets and software. Our primary Infusion System products are dedicated IV sets and the following:

*Infusion Pump Hardware:*

- *Plum 360*™: The Plum 360™ infusion pump is an ICU Medical MedNet™ ready large volume infusion pump with an extensive drug library and wireless capability. Plum 360 was named the 2018, 2019 and 2020 Best in KLAS winner as top-performing IV smart pump and is the first medical device to be awarded UL Cybersecurity Assurance Program Certification. Also, in 2021, the Plum 360 won the first ever award as the top-performing Smart Pump EMR-Integrated; and

- *LifeCare PCA*™: The LifeCare PCA infusion pump is an ICU Medical MedNet™ ready patient-controlled analgesia pump ("PCA"), providing complete IV-EHR interoperability since 2016.

*IV Mediation Safety Software:*

- *ICU Medical MedNet™*: ICU Medical MedNet is an enterprise-class medication management platform for any sized healthcare system that can help reduce medication errors, improve quality of care, streamline workflows and maximize revenue capture. ICU Medical MedNet connects our industry-leading smart pumps to a hospital's Electronic Health Records ("EHR"), asset tracking systems, and alarm notification platforms with the largest array of integration partners.

*Professional Services:*

- In addition to the products above, our teams of clinical, information technology, and professional services experts work with customers to develop and deliver safe and efficient infusion systems, providing customized and personalized configuration, implementation, and data analytics services to complement our infusion hardware and software.

***IV Solutions***

We provide a broad portfolio of IV solutions to meet our customers' clinical needs, providing a consistent supply of IV solutions, irrigation, and nutritionals to help provide safe and effective patient care. Our primary IV Solutions products are:

*IV Therapy and Diluents:*

- Including Sodium Chloride, Dextrose, Balanced Electrolyte Solutions, Lactated Ringer's, Ringer's, Mannitol, Sodium Chloride/Dextrose and Sterile Water.

*Irrigation:*

- Including Sodium Chloride Irrigation, Sterile Water Irrigation, Physiologic Solutions, Ringer's Irrigation, Acetic Acid Irrigation, Glycine Irrigation, Sorbitol-Mannitol Irrigation, Flexible Containers and Pour Bottle Options.

***Critical Care***

Our Critical Care products help clinicians get accurate real-time access to patients' hemodynamic and cardiac status with an extensive portfolio of monitoring systems and advanced sensors & catheters. Measurements provided by our systems help clinicians determine how well the heart is pumping blood and how efficiently oxygen from the blood is being used by the tissues. Our primary Critical Care products are:

- Cogent™ 2-in-1 hemodynamic monitoring system;
- CardioFlo™ hemodynamic monitoring system;
- TDQ™ and OptiQ™ cardiac output monitoring catheters;
- TriOx™ venous oximetry catheters;
- Transpac™ blood pressure transducers; and
- SafeSet™ closed blood sampling and conservation system.

The following table summarizes our total worldwide revenue by domestic and international markets by amount and as a percentage of total revenue (in millions, except percentages):

| | Three months ended September 30, | | | | Nine months ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2021 | | 2020 | | 2021 | | 2020 | |
| | $ | % of Revenue | $ | % of Revenue | $ | % of Revenue | $ | % of Revenue |
| Domestic | $ 245.3 | 73 % | $ 237.4 | 75 % | $ 697.3 | 71 % | $ 675.8 | 71 % |
| International | 90.8 | 27 % | 81.2 | 25 % | 278.5 | 29 % | 274.8 | 29 % |
| Total Revenue | $ 336.1 | 100 % | $ 318.6 | 100 % | $ 975.8 | 100 % | $ 950.6 | 100 % |

The following table sets forth, for the periods indicated, total revenue by product line as a percentage of total revenue:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| **Product line** | **2021** | **2020** | **2021** | **2020** |
| Infusion Consumables | 43 % | 36 % | 42 % | 37 % |
| Infusion Systems | 27 % | 28 % | 27 % | 28 % |
| IV Solutions | 27 % | 32 % | 28 % | 31 % |
| Critical Care | 3 % | 4 % | 3 % | 4 % |
| | 100 % | 100 % | 100 % | 100 % |

We manage our product distribution in the U.S. through a network of two owned and one leased distribution facilities in combination with independent distributors and third-party fulfillment and logistics providers. Our end customers, which include healthcare providers and original equipment manufacturer suppliers, may order and receive our products directly from us or through an independent full-line distributor. Internationally, we manage distribution utilizing international regional hubs and through independent distributors.

In the U.S. a substantial amount of our products are sold to group purchasing organization member hospitals. 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 to secure long-term contracts with large healthcare providers and major buying organizations. Although we believe that we are not dependent on any single distributor, large healthcare provider or major buying organization for distribution of our products, the loss of a strategic relationship with any one of these organizations or a decline in the demand for our 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 acquisition and 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. 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.

**Seasonality/Quarterly Results**

There are no significant seasonal aspects to our business. We may 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, rather than 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.

**Consolidated Results of Operations**

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, 2021 and 2020, the percentages of each income statement caption in relation to total revenue:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Total revenue | 100 % | 100 % | 100 % | 100 % |
| Gross margin | 38 % | 36 % | 37 % | 36 % |
| Selling, general and administrative expenses | 22 % | 22 % | 23 % | 22 % |
| Research and development expenses | 4 % | 3 % | 4 % | 3 % |
| Restructuring and strategic transaction | 1 % | 1 % | 1 % | 2 % |
| Change in fair value of contingent earn-out | — % | 1 % | — % | 1 % |
| Contract settlement | — % | — % | — % | — % |
| Total operating expenses | 27 % | 27 % | 28 % | 28 % |
| Income from operations | 11 % | 9 % | 9 % | 8 % |
| Interest expense | — % | — % | — % | — % |
| Other income (expense), net | — % | — % | — % | — % |
| Income before income taxes | 11 % | 9 % | 9 % | 8 % |
| Provision for income taxes | (2)% | — % | (2)% | (1)% |
| Net income | 9 % | 9 % | 7 % | 7 % |

In addition to comparing changes in revenue on a U.S. GAAP basis, we also compare the changes in revenue from one period to another using constant currency. We provide constant currency information to enhance the visibility of underlying business trends, excluding the effects of changes in foreign currency translation rates. To calculate our constant currency results, we apply the average exchange rate for revenues from the prior year to the current year results. These results should be considered in addition to, not as a substitute for, results reported in accordance with GAAP. Results on a constant currency basis, as we present them, may not be comparable to similarly titled measures used by other companies and are not measures of performance presented in accordance with GAAP.

***Infusion Consumables***

The following table summarizes our total Infusion Consumables revenue (in millions):

| | Three months ended September 30, | | | | Nine months ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2021 | 2020 | $ Change | % Change | 2021 | 2020 | $ Change | % Change |
| Infusion Consumables | $ 144.9 | $ 116.1 | $ 28.8 | 24.8 % | $ 407.5 | $ 350.6 | $ 56.9 | 16.2 % |

Infusion Consumables revenue increased for the three and nine months ended September 30, 2021, as compared to the same periods in the prior year due to lower hospital census in 2020 driven by the onset of the COVID-19 pandemic, growth in our global oncology, U.S. core infusion and renal products and the impact from foreign exchange. For the three and nine months ended September 30, 2021, on a constant currency basis, Infusion Consumables revenue would have been $143.5 million and $398.0 million, respectively, an increase of $27.4 million or 23.6% and $47.4 million or 13.5%, respectively, as compared to the same periods in the prior year.

***Infusion Systems***

The following table summarizes our total Infusion Systems revenue (in millions):

| | Three months ended September 30, | | | | Nine months ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2021 | 2020 | $ Change | % Change | 2021 | 2020 | $ Change | % Change |
| Infusion Systems | $ 90.7 | $ 88.4 | $ 2.3 | 2.6 % | $ 259.7 | $ 267.9 | $ (8.2) | (3.1)% |

Infusion Systems revenue increased for the three months ended September 30, 2021, as compared to the same period in the prior year due to higher dedicated set sales as hospital census recovered from a low level in the third quarter of 2020 driven by the onset of the COVID-19 pandemic, partially offset by lower large volume pump sales during the third quarter of 2021 and a decline in our non-large volume pump business. Infusion Systems revenue decreased for the nine months ended September 30, 2021, as compared to the same period in the prior year due to large volume pump sales driven by higher COVID-19-related purchases during the second and third quarters of 2020 and a decline in our non-large volume pump business, which has been partially offset by higher dedicated set sales in 2021 as a result of higher hospital census. For the three months ended September 30, 2021, on a constant currency basis Infusion Systems revenue would have been $91.0 million, an increase of $2.6 million or 2.9% as compared to the same period in the prior year and for the nine months ended September 30, 2021 on a constant currency basis Infusion Systems revenue would have been $257.5 million, a decrease of $10.4 million or 3.9% as compared to the same period in the prior year.

***IV Solutions***

The following table summarizes our total IV Solutions revenue (in millions):

| | Three months ended September 30, | | | | Nine months ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2021 | 2020 | $ Change | % Change | 2021 | 2020 | $ Change | % Change |
| IV Solutions | $ 89.2 | $ 101.9 | $ (12.7) | (12.5)% | $ 271.8 | $ 295.4 | $ (23.6) | (8.0)% |

IV Solutions revenue decreased for the three and nine months ended September 30, 2021, as compared to the same periods in the prior year primarily due to lower contract manufacturing sales to Pfizer.

***Critical Care***

The following table summarizes our total Critical Care revenue (in millions):

| | Three months ended September 30, | | | | Nine months ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2021 | 2020 | $ Change | % Change | 2021 | 2020 | $ Change | % Change |
| Critical Care | $ 11.3 | $ 12.2 | $ (0.9) | (7.4)% | $ 36.8 | $ 36.7 | $ 0.1 | 0.3 % |

Critical Care revenue slightly decreased for the three months ended September 30, 2021, as compared to the same period in the prior year and was essentially flat for the nine months ended September 30, 2021, as compared to the same period in the prior year.

***Gross Margins***

For the three and nine months ended September 30, 2021, gross margins were 38.0% and 37.3%, respectively, as compared to 35.8% and 35.9%, respectively, for the three and nine months ended September 30, 2020. The increase in gross margin for the three months ended September 30, 2021, as compared to the same period in the prior year was primarily due to product mix and increased plant volumes, offset by increased costs for raw materials, direct labor and freight. The increase in gross margin for the nine months ended September 30, 2021, as compared to the same period in the prior year was primarily due to product mix and increased plant volumes, offset by capitalized manufacturing variances from the shutdown of our Austin plant in the fourth quarter of 2020, additional weather-related costs at our Austin plant during the first quarter of 2021 and increased costs for raw materials, direct labor and freight.

***Selling, General and Administrative ("SG&A") Expenses***

The following table summarizes our total SG&A Expenses (in millions):

| | Three months ended September 30, | | | | Nine months ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2021 | 2020 | $ Change | % Change | 2021 | 2020 | $ Change | % Change |
| SG&A | $ 74.8 | $ 70.9 | $ 3.9 | 5.5 % | $ 221.1 | $ 210.4 | $ 10.7 | 5.1 % |

SG&A expenses increased for the three and nine months ended September 30, 2021, as compared to the same periods in the prior year. For the three months ended September 30, 2021 as compared to the same period in the prior year, the increases were primarily due to compensation expense which increased $3.4 million and commissions which increased $1.4 million. Offsetting these increases was a decrease of $2.6 million in bad debt expense. Compensation expense increased primarily due to increased headcount and annual compensation merit increases. Commissions increased due to an increase in revenue. Bad debt expense is adjusted quarterly, if deemed necessary, based on an assessment of our accounts receivables and our expectations regarding the collectability of those accounts.

For the nine months ended September 30, 2021, as compared to the same period in the prior year, the increases were primarily due to compensation expense which increased $6.3 million, dealer fees which increased $2.9 million, and legal expenses which increased $2.0 million. Offsetting these increases was a $2.3 million decrease in bad debt expense. Compensation expense increased primarily due to increased headcount and annual compensation merit increases. Dealer fees increased due to an increase in revenue from U.S. distributors in the current year. Legal fees increased due to additional services performed in the current year related to various legal matters. Bad debt expense is adjusted quarterly, if deemed necessary, based on an assessment of our accounts receivables and our expectations regarding the collectability of those accounts.

***Research and Development ("R&D") Expenses***

The following table summarizes our total R&D Expenses (in millions):

| | Three months ended September 30, | | | | Nine months ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2021 | 2020 | $ Change | % Change | 2021 | 2020 | $ Change | % Change |
| R&D | $ 12.2 | $ 10.1 | $ 2.1 | 20.8 % | $ 34.3 | $ 31.2 | $ 3.1 | 9.9 % |

R&D expenses increased for the three and nine months ended September 30, 2021, as compared to the same periods in the prior year, due to timing and nature of various R&D projects. R&D expenses during both periods primarily relates to compensation and related benefit expenses on current R&D projects.

***Restructuring and Strategic Transaction and Integration Expenses***

Restructuring and strategic transaction and integration expenses were $2.4 million and $9.0 million for the three and nine months ended September 30, 2021, respectively, as compared to $4.1 million and $22.9 million for the three and nine months ended September 30, 2020, respectively.

*Restructuring charges*

During the third quarter we adjusted certain facility restructuring liabilities by $2.0 million to reflect actual amounts owed resulting in net restructuring credits of $(2.0) million and $(1.8) million for the three and nine months ended September 30, 2021, respectively. Restructuring charges for the three and nine months ended September 30, 2020 were $0.0 million and $8.1 million, respectively. Restructuring charges for the nine months ended September 30, 2020 were primarily related to severance charges and costs related to office and facility closures.

*Strategic transaction and integration expenses*

Strategic transaction and integration expenses were $4.3 million and $10.8 million for the three and nine months ended September 30, 2021, respectively, as compared to $4.1 million and $14.8 million for the three and nine months ended September 30, 2020, respectively. The strategic transaction and integration expenses during the three months ended September 30, 2021 were primarily related to transaction expenses incurred related to entering into a definitive agreement to acquire Smiths. The strategic transaction and integration expenses for the nine months ended September 30, 2021 were primarily related to integration costs associated with acquisitions, the Hospira Infusion Systems ("HIS") earn-out dispute with Pfizer, one-time costs incurred to comply with regulatory initiatives and the transaction costs related to the Smiths transaction. The strategic transaction and integration expenses during the three and nine months ended September 30, 2020 were primarily related to the integration of the HIS business acquired in 2017 from Pfizer, which included the migration of IT systems at our Austin facility.

***Change in Fair Value of Contingent Earn-out***

For the three and nine months ended September 30, 2021 there was no change in fair value of the Pursuit earn-out liability for each period. As of June 30, 2021, the Pursuit earn-out measurement period had ended and in October 2021 the $26.3 million earn-out was finalized and paid to Pursuit's former shareholders.

For the three and nine months ended September 30, 2020, the fair value revaluation of our Pursuit earn-out liability resulted in an increase in value of $4.3 million and $7.0 million, respectively.

***Contract Settlement***

For the nine months ended September 30, 2021, we recorded $0.1 million in contract settlement expense.

***Interest Expense***

Interest expense was $0.2 million and $0.5 million for the three and nine months ended September 30, 2021, respectively, as compared to $0.6 million and $1.6 million for the three and nine months ended September 30, 2020, respectively. The three and nine months ended September 30, 2021 primarily includes interest expense related to the per annum commitment fee charged on the unused portion of the revolver under our Credit Facility and the amortization of financing costs that were incurred in 2017 in connection with entering into the Credit Facility. During March 2020, we borrowed $150.0 million under our Credit Facility and, accordingly the interest expense for the three and nine months ended September 30, 2020 also includes interest incurred on borrowings under the Credit Facility (see Note 16: Long-Term Obligations in our accompanying condensed consolidated financial statements for additional information).

***Other (Expense) Income, net***

Other (expense) income netted to ($0.3) million and $0.9 million for the three and nine months ended September 30, 2021, respectively, as compared to $1.3 million and ($2.2) million for the three and nine months ended September 30, 2020, respectively. For the three months ended September 30, 2021, the other expense, net was related to $0.9 million in foreign exchange losses and $0.3 million of loss from disposed assets offset by $0.7 million of interest income and $0.2 million of miscellaneous income. For the nine months ended September 30, 2021, the other income, net was related to $2.1 million of interest income and $0.5 million of miscellaneous income partially offset by $1.1 million of loss from disposed assets and $0.6 million in foreign exchange losses. For the three months ended September 30, 2020, the other income, net was related to $2.5 million in miscellaneous income and $0.8 million of interest income, partially offset by $1.4 million in foreign exchange losses and $0.6 million of loss from disposed assets. For the nine months ended September 30, 2020, the other expense, net was primarily related to $6.0 million in foreign exchange losses and $1.7 million of loss from disposed assets, partially offset by $2.5 million in miscellaneous income and $3.0 million in interest income.

***Income Taxes***

For the three and nine months ended September 30, 2021, income taxes were accrued at an estimated effective tax rate of 18% and 17%, respectively, as compared to 5% and 10%, for the three and nine months ended September 30, 2020, respectively.

The effective tax rate for the three and nine months ended September 30, 2021 differs from the federal statutory rate of 21% principally because of the effect of the mix of U.S. and foreign incomes, state income taxes, global intangible low-taxed income ("GILTI"), foreign-derived intangible income ("FDII") and tax credits. The effective tax rate during the three and nine months ended September 30, 2021 included the following:

- Excess tax benefits recognized on stock option exercises and the vesting of restricted stock units during the three and nine months ended September 30, 2021 of $1.1 million and $3.3 million, respectively.
- U.S. federal return-to-provision adjustments for the year ended December 31, 2020 primarily due to changes in estimates for GILTI, FDII, subpart F and related foreign tax credits along with other prior period adjustments resulted in a tax provision of $1.1 million.

The effective tax rate for the three and nine months ended September 30, 2020 differs from the federal statutory rate of 21% principally because of the effect of the mix of U.S. and foreign incomes, state income taxes, GILTI, FDII and tax credits. The effective tax rate during the three and nine months ended September 30, 2020 included a tax benefit of $0.1 million and $3.6 million, respectively, related to the excess tax benefits recognized on stock option exercises and the vesting of restricted stock units during the period. The effective tax rate for the three and nine months ended September 30, 2020 also included U.S. federal and state return-to-provision adjustments net of related reserve changes for the year ended December 31, 2019 of $3.8 million tax benefit primarily due to changes in estimates for GILTI, FDII, and related foreign tax credits.

## Liquidity and Capital Resources

During the first nine months of 2021, our cash, cash equivalents and short and long-term investments increased by $120.9 million from $423.8 million at December 31, 2020 to $544.7 million at September 30, 2021.

### *Cash Flows from Operating Activities*

Our net cash provided by operations for the nine months ended September 30, 2021 was $184.9 million. Net income plus adjustments for non-cash net expenses contributed $195.2 million. Net cash used in operations as a result of changes in operating assets and liabilities was $10.3 million. The changes in operating assets and liabilities included a $13.6 million increase in other assets, a $10.4 million decrease in accounts payable, a $8.3 million decrease in accrued liabilities and $1.9 million in net changes in income taxes, including excess tax benefits and deferred income taxes. Offsetting these amounts was a $16.5 million decrease in inventories, a $3.8 million decrease in accounts receivables and a $3.6 million decrease in prepaid expenses and other assets. The increase in other assets was due to the purchase of spare parts. The decrease in accounts payable was due to the timing of payments. The decrease in accrued liabilities was primarily due to the payment of operating lease liabilities and annual bonuses. The net changes in income taxes was a result of the timing of payments. The decrease in inventory was primarily due to the timing of production and customer purchases combined with the reduction in capitalized manufacturing variances. The decrease in accounts receivable is primarily due to collection efforts. The net decrease in prepaid expenses and other current assets was primarily due to a decrease in prepaid insurance and property taxes, decreased sales tax receivables and a decrease in deferred costs, offset partially by an increase in annual software and service contract renewals.

Our net cash provided by operations for the nine months ended September 30, 2020 was $144.2 million. Net income plus adjustments for non-cash net expenses contributed $174.3 million. Net cash used in operations as a result of changes in operating assets and liabilities was $30.1 million. The changes in operating assets and liabilities included a $38.0 million decrease in accounts payable, a $20.4 million decrease in accrued liabilities, a $12.1 million increase in other assets, a $6.5 million increase in prepaid expenses, and $0.7 million in net changes in income taxes, including excess tax benefits and deferred income taxes. Offsetting these amounts was a $38.9 million decrease in accounts receivables and a $8.9 million decrease in inventories. The decrease in accounts payable was due to the timing of payments. The decrease in accrued liabilities was due to the payment of accrued supply chain reorganization costs. The increase in other assets was due to the purchase of spare parts. The increase in prepaid expenses and other current assets was primarily due to an increase in deferred costs. The net changes in income taxes was a result of the timing of payments. The decrease in inventory was primarily due to improved inventory management. The decrease in accounts receivable is primarily due to collection efforts. The net changes in income taxes was a result of the timing of payments.

### *Cash Flows from Investing Activities*

The following table summarizes the changes in our investing cash flows (in thousands):

| | Nine months ended September 30, 2021 | Nine months ended September 30, 2020 | Change |
|---|---|---|---|
| **Investing Cash Flows:** | | | |
| Purchases of property and equipment | $ (46,464) | $ (62,362) | $ 15,898 (1) |
| Proceeds from sale of assets | 218 | 154 | 64 |
| Intangible asset additions | (10,216) | (6,325) | (3,891) (2) |
| Investments in non-marketable equity securities | (3,250) | — | (3,250) (3) |
| Purchases of investment securities | (10,034) | (9,603) | (431) (4) |
| Proceeds from sale of investment securities | 12,000 | 20,900 | (8,900) (5) |
| Net cash used in investing activities | $ (57,746) | $ (57,236) | $ (510) |

(1) Our purchases of property and equipment will vary from period to period based on additional investments needed to support new and existing products and expansion of our manufacturing facilities.

(2) In September 2021, we recorded a $7.1 million intangible asset related to a three-year non-compete agreement, of which $3.1 million was non-cash offset with a contingent earn-out (see Note 8: Fair Value Measurements).

(3) In September 2021, we paid $3.3 million to acquire approximately a 20% non-marketable equity interest in a non public company.

(4) Our purchases of investment securities will vary from period to period based on current cash needs, planning for known future transactions and due to changes in our investment strategy.

(5) Proceeds from the sale or maturity of our investment securities will vary from period to period based on the maturity dates of the investments we currently hold.

While we can provide no assurances, we estimate that our capital expenditures in 2021 will be approximately $70.0 million to $75.0 million. We anticipate making additional investments in machinery and equipment in our manufacturing operations in the U.S., Costa Rica, and Mexico to support new and existing products and in infusion pumps that are placed with customers outside the U.S. We expect to use our cash and cash equivalents to fund our capital purchases. Amounts of spending are estimates and actual spending may substantially differ from those amounts.

***Cash Flows from Financing Activities***

The following table summarizes the changes in our financing cash flows (in thousands):

| | Nine months ended September 30, 2021 | Nine months ended September 30, 2020 | Change |
|---|---|---|---|
| **Financing Cash Flows:** | | | |
| Proceeds from short-term debt | $ — | $ 150,000 | $ (150,000) (1) |
| Repayment of short-term debt | — | (150,000) | 150,000 (1) |
| Proceeds from exercise of stock options | 6,966 | 8,586 | (1,620) (2) |
| Payments on finance leases | (448) | (231) | (217) |
| Tax withholding payments related to net share settlement of equity awards | (8,109) | (12,821) | 4,712 (3) |
| Net cash used in financing activities | $ (1,591) | $ (4,466) | $ 2,875 |

(1) During March 2020, as a result of market uncertainty caused by COVID-19, we borrowed $150.0 million under our revolving Credit Facility. We fully repaid the amounts borrowed under our revolving Credit Facility in September 2020.

(2) Proceeds from the exercise of stock options will vary from period to period based on the volume of options exercised and the exercise price of the specific options exercised.

(3) During the nine months ended September 30, 2021, our employees surrendered 39,371 shares of our common stock from vested restricted stock awards as consideration for approximately $8.1 million in minimum statutory withholding

obligations paid on their behalf. During the nine months ended September 30, 2020, our employees surrendered 66,749 shares of our common stock from vested restricted stock awards as consideration for approximately $12.8 million in minimum statutory withholding obligations paid on their behalf.

In August 2019, our Board of Directors approved a share purchase plan to purchase up to $100.0 million of our common stock. This plan replaced our existing plan and has no expiration date. As of September 30, 2021, all of the $100 million available for purchase was remaining under the plan.

We have a substantial cash and investment security position generated from operations. We maintain this position to address any operational challenges related to COVID-19, 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.

*Definitive Agreement to Purchase Smiths Medical 2020 Limited*

As mentioned above, we entered into a definitive agreement to acquire Smiths Medical 2020 Limited. The purchase price includes the payment of $1.9 billion in cash, a potential contingent earn-out of $100.0 million and the issuance of 2.5 million fully paid and non-assessable shares of our common stock. During September 2021, we entered into a debt commitment letter pursuant to which we will be provided with senior secured credit facilities of up to $2.0 billion consisting of a term loan A facility of $850.0 million, a term loan B facility of $850.0 million and a revolving credit facility of $300.0 million. In October 2021, the debt commitment related to the term loan A and revolving credit facility was syndicated to a broader group of Committed Parties. As part of the syndication process, the size of the revolving credit facility was increased from $300.0 million to $500.0 million. The proceeds from the new credit facilities will be used to partially finance the Smiths acquisition. We expect the new credit facilities to be available near or on the closing date of the Smiths acquisition.

*Access to Capital*

We believe that our existing cash and cash equivalents along with funds expected to be generated from future operations and the funds received under the Credit Facilities in connection with financing the Smiths acquisition will provide us with sufficient funds to finance our current operations for the next twelve months. In the event that we experience downturns, cyclical fluctuations in our business that are more severe or longer than anticipated, fail to achieve anticipated revenue and expense levels, or have significant unplanned cash expenditures, 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. Our ability to generate cash flows from operations, issue debt or enter into other financing arrangements on acceptable terms could be adversely affected if there is a material decline in the demand for our products or in the solvency of our customers or suppliers, deterioration in our key financial ratios or credit ratings or other significantly unfavorable changes in conditions.

*Credit Facility*

We have a five-year Credit Facility with various lenders for $150.0 million, with Wells Fargo Bank, N.A. as the administrative agent (see Note 16: Long-Term Obligations). The Credit Facility has an accordion feature that would enable us to increase the borrowing capacity of the Credit Facility by the greater of (i) $100.0 million and (ii) 2.00x Total Leverage. Under the terms of the Credit Facility, we will be subject to certain financial covenants pertaining to leverage and fixed charge coverage ratios. Borrowings under the Credit Facility will bear interest at LIBOR plus an applicable margin tied to the leverage ratio in effect. Any unused portion of the Credit Facility will be subject to a per annum commitment fee which is also calculated using the leverage ratio in effect. The Credit Facility matures in November 2022. During March 2020, as a precautionary measure in response to market uncertainty driven by the COVID-19 pandemic, we preemptively increased our liquidity by borrowing $150.0 million under our Credit Facility. In September 2020, we fully repaid the borrowings under our Credit Facility.

Our current Credit Facility will be refinanced in full with the consummation of the Smiths acquisition. We expect to enter into a new credit facility at or near the closing of the Smiths acquisition which we anticipate will include a new revolving credit facility of $500.0 million (see Note 20, Acquisitions).

*Financial Covenants*

The Credit Facility contains certain negative financial covenants, including, Consolidated Total Leverage and Consolidated Fixed Charge Coverage Ratios.

The Consolidated Leverage Ratio is defined as the ratio of Consolidated Total Funded Indebtedness on such date, to Consolidated Adjusted EBITDA, as defined under the Credit Facility Agreement, for the most recently completed four fiscal quarters. The maximum Consolidated Leverage Ratio is not more than 3.00 to 1.00.

The Consolidated Fixed Charge Coverage Ratio is defined as the ratio of: (a) Consolidated Adjusted EBITDA less the sum of (i) capital expenditures, (ii) federal, state, local and foreign income taxes paid in cash and (iii) cash restricted payments made after the closing date, to (b) Consolidated Fixed Charges for the most recently completed four fiscal quarters, calculated on a pro forma basis. The minimum Consolidated Fixed Charge Coverage Ratio is 2.00 to 1.00.

We were in compliance with all financial covenants as of September 30, 2021.

**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**

There have been no material changes to our contractual obligations disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020 ("Annual Report"), except with respect to our purchase obligations in connection with the Smiths transaction. Pursuant to the Purchase Agreement, we expect to purchase the entire share capital of Smiths for $1.9 billion in cash, the issuance of 2.5 million fully paid and non-assessable shares of our common stock, par value $0.10 per share and a potential contingent earn-out of $100.0 million in cash, which is to be based upon our common stock achieving a certain volume. We expect to finance this acquisition with senior secured credit facilities of up to $2.2 billion consisting of a term loan A facility of $850.0 million, a term loan B facility of $850 million and a revolving credit facility of $500.0 million.

**Critical Accounting Policies**

In our Annual Report, we identified the critical accounting policies which affect our more significant estimates and assumptions used in preparing our consolidated financial statements, there have been no material changes to our critical accounting policies from those previously disclosed in our Annual Report.

**New Accounting Pronouncements**

See Note 2 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, and documents referenced herein, 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 may 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 and effects with respect to sales and marketing and product development and acquisition efforts; future sales and unit volumes of products; expected increases and decreases in sales; deferred revenue; accruals for restructuring charges, future license, royalty and revenue share income; production costs; gross margins; litigation expense; future SG&A and R&D expenses; manufacturing expenses; future costs of expanding our business; income; losses; cash flow; amortization; source of funds for capital purchases and operations; future tax rates; alternative sources of capital or financing; 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; loss of a strategic relationship; change in demand; domestic and international sales; expansion in international markets, selling prices; future increases or decreases in sales of certain products and in certain markets and distribution channels; maintaining strategic relationships and securing long-term and multi-product contracts with large healthcare providers and major buying organizations; increases in systems capabilities; introduction, development and sales of new products, acquisition and integration of businesses and product lines (including the Smiths business); benefits of our products over competing systems; qualification of our new products for the expedited Section 510(k) clearance procedure; possibility of lengthier clearance process for new products; planned increases in marketing; warranty claims; rebates; product returns; bad debt expense; amortization expense; inventory requirements; lives of property and equipment; manufacturing efficiencies and cost savings; unit manufacturing costs; establishment or expansion of production facilities inside or outside of the United States; planned new orders for semi-automated or fully automated assembly machines for new products; adequacy of production capacity; results of R&D; our plans to repurchase shares of our common stock; asset impairment losses; relocation of manufacturing facilities and personnel; effect of expansion of manufacturing facilities on production efficiencies and resolution of production inefficiencies; the effect of costs to customers and delivery times; business seasonality and fluctuations in quarterly results; customer ordering patterns and the effects of new accounting pronouncements; and

- new or extended contracts with manufacturers and buying organizations; dependence on a small number of customers; loss of larger distributors and the ability to locate other distributors; impact of our pending acquisition of the Smiths business; growth of our Clave products in future years; design features of Clave products; the outcome of our strategic initiatives; regulatory approvals and compliance; outcome of litigation; patent protection and intellectual property landscape; patent infringement claims and the impact of newly issued patents on other medical devices; competitive and market factors, including continuing development of competing products by other manufacturers; improved production processes and higher volume production; innovation requirements; consolidation of the healthcare provider market and downward pressure on selling prices; distribution or financial capabilities of competitors; healthcare reform legislation; use of treasury stock; working capital requirements; liquidity and realizable value of our investment securities; future investment alternatives; foreign currency denominated financial instruments; foreign exchange risk; commodity price risk; our expectations regarding liquidity and capital resources over the next twelve months; capital expenditures; plans to convert existing space; acquisitions of other businesses or product lines, indemnification liabilities and contractual liabilities.

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, 2020, Part II, Item 1A of this Quarterly Report on Form 10-Q and our other reports 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:

- the impacts of the COVID-19 pandemic on us, our business and on domestic and global economies generally;
- general economic and business conditions, both in the U.S. and internationally;
- unexpected changes in our arrangements with Pfizer 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;
- acquisition and integration expenses (including as it relates to the Smiths acquisition);
- the availability of patent protection and the cost of enforcing and of defending patent claims; and
- natural disasters and outbreak of disease or illness.

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

*Interest Rate Risk*

If we were to incur borrowings under our Credit Facility, we would face market risk stemming from changes in interest rates.

In connection with the Smiths acquisition we expect to enter into senior secured credit facilities totaling approximately $2.2 billion consisting of a variable-rate term loan A facility of $850.0 million, a variable-rate term loan B facility of $850 million and a revolving credit facility of $500.0 million. We will be exposed to changes in interest rates on these variable-rate debt instruments. In order to mitigate a portion of the interest rate risk exposure associated with these debt instruments we may enter into interest rate swaps to achieve a targeted mix of fixed and variable-rate debt.

*Foreign Exchange Risk*

We transact business globally in multiple currencies, some of which are considered volatile. Our international revenues and expenses and working capital positions denominated in these foreign currencies expose us to the risk of fluctuations in foreign currency exchange rates against the U.S. dollar. As the receiver of foreign currencies we are adversely affected by the strengthening of the U.S. dollar relative to the foreign currency.

In our European operations, our net Euro asset position at September 30, 2021 was approximately €44.9 million. A 10% change in the conversion of the Euro to the U.S. dollar for our cash, accounts receivable, accounts payable and accrued liabilities from the September 30, 2021 spot rate would impact our consolidated amounts on these balance sheet items by approximately $5.2 million, or 1.1% of these consolidated net assets. We expect that in the future, with the growth of our European distribution operations, net Euro denominated instruments will continue to increase. We currently do not hedge our Euro foreign currency exposures.

We have manufacturing facilities and conduct business transactions denominated in the Mexican Peso. We hedge a portion of our manufacturing spend, which reduces our exposure to the foreign currency exchange risk related to the Mexican Peso (see Note 7: Derivatives and Hedging to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q).

## Item 4. Controls and Procedures

*Evaluation of 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 amended (the "Exchange Act")), 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, 2021 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

Certain legal proceedings in which we are involved are discussed in Part I, Item 1. "Financial Statements" of this Form 10-Q in Note 18. Commitments and Contingencies to the Condensed Consolidated Financial Statements, and is incorporated herein by reference.

## **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, 2020, as well as the information contained in this Quarterly Report and our other reports and registration statements filed with the SEC.

Risks Related to the Pending Smiths Transaction

*We may not be able to successfully or timely consummate the pending Smiths transaction and such failure would adversely impact our business, our financial condition and the market price of our common stock.*

On September 8, 2021, we entered into a Purchase Agreement pursuant to which we expect to purchase the entire issued share capital of Smiths for approximately $1.9 billion in cash, the issuance of 2.5 million fully paid and non-assessable shares of our common stock, par value $0.10 per share and a potential contingent earn-out of $100.0 million in cash, which is to be based upon our common stock achieving a certain volume weighted average price for certain periods from closing to the third or fourth anniversary of closing. Closing under the Purchase Agreement is conditional upon the approval of the shareholders of Smiths, certain antitrust conditions and foreign direct investment conditions. We will be unable to complete the pending Smiths transaction until each of the conditions to closing is either satisfied or waived.

Risks and uncertainties related to the closing include, among others, the possible occurrence of any event, change or other circumstance that could give rise to the termination of the Purchase Agreement, the failure to consummate the Smiths transaction because the conditions to the closing are not satisfied or waived by the parties, the risk that third-party approvals or consents required for the transaction are not obtained and that litigation may be filed which could prevent or delay the closing of the Smiths transaction. Furthermore, under certain circumstances, Smiths Group can terminate the Purchase Agreement and require us to pay a termination fee of $200 million in cash and the issuance of a certain number of shares equal to $100 million based on the volume weighted average price for certain periods. In addition, we have incurred significant costs, expenses and fees for professional services and other transaction costs in connection with the pending Smiths transaction, as well as the diversion of management resources, for which we will have received little or no benefit if the closing of the pending Smiths transaction does not occur. For these and other reasons, our failure to complete the pending Smiths transaction could have a material adverse impact on our business, financial condition and results of operations.

*If we successfully consummate the pending Smiths transaction, we may not realize the anticipated benefits of the transaction, which could adversely impact our business and our operating results.*

The Smiths transaction is a significant transaction for us and the product offerings within the Smiths business are not product offerings that we currently offer. The success of our business will depend, in part, on our ability to realize our anticipated benefits, opportunities and synergies from combining the businesses of our company and the Smiths business. We can provide no assurance that the anticipated benefits of the Smiths transaction will be fully realized in the time frame anticipated or at all. We have limited prior history of integrating acquired companies or businesses into our operations, much less one of this size and complexity. Integrating the operations of the Smiths business with that of our own will be a complex, costly and time-consuming process and the nature of a carve out acquisition makes it inherently more difficult to assume operations on closing day as well as to integrate activities, as certain systems, processes and people may not all transfer with the acquired business to support such activities. The integration process may disrupt the businesses and, if implemented ineffectively, would restrict the realization of the full expected benefits. The failure to meet the challenges involved in integrating the two businesses could cause an interruption of, or a loss of momentum in, the activities of the combined businesses and could adversely affect the results of operations of the combined businesses. Potential difficulties that may be encountered in the integration process include the following:

- challenges in preserving important strategic customer and other third-party relationships of both businesses;
- the diversion of management's attention to integration matters;
- challenges in maintaining employee morale and retaining or attracting key employees;
- potential incompatibility of corporate cultures;
- changes in the combined business due to potential divestitures or requirements imposed by antitrust regulators;
- costs, delays and other difficulties consolidating corporate and administrative infrastructures and information systems and in implementing common systems and procedures including, in particular, our internal controls over financial reporting; and

- coordinating and integrating a geographically dispersed organization, including operations in jurisdictions we currently do not operate in.

Any one or all of these factors may increase operating costs or lower anticipated financial performance. Achieving the anticipated benefits and the potential benefits underlying our reasons for the Smiths business acquisition will depend on successful integration of the businesses. Because of the significance of the Smiths business acquisition to us, our failure to successfully integrate the Smiths business with that of our own could have a material adverse impact on our business, financial condition and results of operations.

*We plan to use a significant portion of our cash on hand and incur a substantial amount of debt to finance the cash consideration portion and certain other amounts to be paid in connection with the Smiths transaction, which could adversely affect our business, including by restricting our ability to engage in additional transactions or incur additional indebtedness.*

Following the consummation of the Smiths transaction, we expect to have significantly less cash, cash equivalents and investment securities on hand than the approximately $544.7 million of cash, cash equivalents and investment securities we had as of September 30, 2021. Although our management believes that it will have access to cash sufficient to meet our business objectives and capital needs, the lessened availability of cash, cash equivalents and investment securities for a period of time following the consummation of the Smiths transaction could constrain our ability to grow our business. In connection with the Smiths transaction and the payment of the cash consideration, we also expect that at closing we will enter senior secured credit facilities of up to $2.2 billion consisting of a term loan A facility of $850.0 million, a term loan B facility of $850.0 million and a revolving credit facility of $500.0 million. As a result, we will incur borrowing costs going forward. Our more leveraged financial position following the Smiths transaction could make us vulnerable to general economic downturns and industry conditions, and place us at a competitive disadvantage relative to our competitors. In the event that we do not have adequate capital to maintain or develop our business, additional capital may not be available to us on a timely basis, on favorable terms, or at all. Moreover, our senior credit facilities may restrict how we may operate our business, including limiting our ability to engage in certain transactions and to incur additional indebtedness, and our business may be materially and adversely affected if these restrictions prevent us from implementing our business plan.

There have been no other material changes in the risk factors other than those mentioned above from those 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, 2020.

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

*Purchase of Equity Securities*

The following is a summary of our stock repurchasing activity during the third quarter of 2021:

| Period | Total number of shares purchased | Average price paid per share | Total number of shares purchased as part of a publicly announced program | Approximate dollar value that may yet be purchased under the program[(1)] |
|---|---|---|---|---|
| 07/01/2021 — 07/31/2021 | — | $ — | — | $ 100,000,000 |
| 08/01/2021 — 08/31/2021 | — | $ — | — | $ 100,000,000 |
| 09/01/2021 — 09/30/2021 | — | $ — | — | $ 100,000,000 |
| Third quarter of 2021 total | — | $ — | — | $ 100,000,000 |

(1) Our common stock purchase plan, which authorized the repurchase of up to $100.0 million of our common stock, was authorized by our Board of Directors and publicly announced in August, 2019. 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.

## Item 6. Exhibits

See the Exhibit Index following the signature page to this Quarterly Report on Form 10-Q for a list of exhibits filed or furnished with this report, which Exhibit Index is incorporated herein by reference.

**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)

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|---|---|
| /s/ Brian M. Bonnell | Date: November 5, 2021 |
| Brian M. Bonnell<br>Chief Financial Officer<br>(Principal Financial Officer) | |

**Exhibit Index**

| | |
|---|---|
| Exhibit 2.1 | Share Sale and Purchase Agreement, dated September 8, 2021, by and between Smiths Group International Holdings Limited, a private limited company incorporated in England & Wales, and ICU Medical, Inc., a Delaware corporation. Filed as an Exhibit to Registrant's Current Report on Form 8-K filed September 8, 2021 and incorporated herein by reference. |
| Exhibit 2.2 | Put Option Deed from ICU Medical, Inc., a Delaware corporation to Smiths Group International Holdings Limited, a private limited company incorporated in England & Wales. Filed as an Exhibit to Registrant's Current Report on Form 8-K filed September 8, 2021 and incorporated herein by reference. |
| Exhibit 10.1 | Debt Commitment Letter, dated as of September 7, 2021, by and among Wells Fargo Bank, National Association, Wells Fargo Securities, LLC, Barclays Bank PLC and ICU Medical, Inc. a Delaware corporation. Filed as an Exhibit to Registrant's Current Report on Form 8-K filed September 8, 2021 and incorporated herein by reference. |
| 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 - this instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL 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 |
| Exhibit 104 | Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101) |

**Exhibit 31.1**

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Vivek Jain, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ICU Medical, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

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| Date: November 5, 2021 | /s/ Vivek Jain |
| | Chief Executive Officer |

**Exhibit 31.2**

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Brian M. Bonnell, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ICU Medical, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

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|---|---|---|
| Date: | November 5, 2021 | /s/ Brian M. Bonnell |
| | | Chief Financial Officer |

**Exhibit 32.1**

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER**
**PURSUANT TO**
**18 U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of ICU Medical, Inc. (the “Company”) on Form 10-Q for the period ended September 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Vivek Jain, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

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|---|---|
| November 5, 2021 | /s/ Vivek Jain |
| | Vivek Jain |

**CERTIFICATION OF CHIEF FINANCIAL OFFICER**
**PURSUANT TO**
**18 U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of ICU Medical, Inc. (the “Company”) on Form 10-Q for the period ended September 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Brian M. Bonnell, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

| | |
|---|---|
| November 5, 2021 | /s/ Brian M. Bonnell |
| | Brian M. Bonnell |