UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: June 30, 2018
Or

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

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

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o
(Do not check if a smaller reporting company)	Emerging growth company o

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

Class	**Outstanding at July 31, 2018**
Common	20,467,529

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

ICU MEDICAL, INC. AND SUBSIDIARIES
Form 10-Q
June 30, 2018

Table of Contents

PART I - FINANCIAL INFORMATION
Item1. Financial Statements (Unaudited)

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

	June 30, 2018	December 31, 2017
	(Unaudited)	(1)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 309,097	$ 290,072
Short-term investment securities	18,069	10,061
TOTAL CASH, CASH EQUIVALENTS AND INVESTMENT SECURITIES	327,166	300,133
Accounts receivable, net of allowance for doubtful accounts of $4,444 at June 30, 2018 and $3,311 at December 31, 2017	149,938	112,696
Inventories	288,950	288,657
Prepaid income tax	26,388	10,594
Prepaid expenses and other current assets	28,742	41,286
Related-party receivable	78,358	98,807
Assets held-for-sale	—	12,489
TOTAL CURRENT ASSETS	899,542	864,662
PROPERTY AND EQUIPMENT, net	415,727	398,684
LONG-TERM INVESTMENT SECURITIES	5,947	14,579
GOODWILL	13,348	12,357
INTANGIBLE ASSETS, net	134,812	143,753
DEFERRED INCOME TAXES	19,584	24,775
OTHER ASSETS	37,384	38,141
TOTAL ASSETS	$ 1,526,344	$ 1,496,951
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 91,186	$ 78,228
Accrued liabilities	111,280	132,064
TOTAL CURRENT LIABILITIES	202,466	210,292
CONTINGENT EARN-OUT LIABILITY	29,000	27,000
OTHER LONG-TERM LIABILITIES	31,805	55,326
DEFERRED INCOME TAXES	1,412	1,487
INCOME TAX LIABILITY	4,592	4,592
COMMITMENTS AND CONTINGENCIES	—	—
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 and outstanding, 20,460 shares at June 30, 2018 and 20,210 shares at December 31, 2017	2,046	2,021
Additional paid-in capital	644,389	625,568
Treasury stock, at cost	(20)	—
Retained earnings	627,884	585,624
Accumulated other comprehensive loss	(17,230)	(14,959)
TOTAL STOCKHOLDERS' EQUITY	1,257,069	1,198,254
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,526,344	$ 1,496,951

(1) December 31, 2017 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 June 30,		Six months ended June 30,	
	2018	**2017**	**2018**	**2017**
REVENUE:				
Net sales	$ 360,460	$ 331,218	$ 732,493	$ 578,461
Other	—	296	—	792
TOTAL REVENUE	360,460	331,514	732,493	579,253
COST OF GOODS SOLD	208,660	243,452	431,692	402,246
GROSS PROFIT	151,800	88,062	300,801	177,007
OPERATING EXPENSES:				
Selling, general and administrative	83,538	85,106	170,535	149,992
Research and development	13,575	12,967	26,161	24,608
Restructuring, strategic transaction and integration	18,690	19,921	40,259	49,322
Change in fair value of contingent earn-out	6,000	6,000	2,000	6,000
Contract settlement	—	—	28,917	—
TOTAL OPERATING EXPENSES	121,803	123,994	267,872	229,922
INCOME (LOSS) FROM OPERATIONS	29,997	(35,932)	32,929	(52,915)
BARGAIN PURCHASE GAIN	—	—	—	63,237
INTEREST EXPENSE	(130)	(525)	(265)	(1,038)
OTHER (EXPENSE) INCOME	(270)	(2,720)	756	(2,613)
INCOME (LOSS) BEFORE INCOME TAXES	29,597	(39,177)	33,420	6,671
BENEFIT FOR INCOME TAXES	1,457	2,117	2,509	12,132
NET INCOME (LOSS)	$ 31,054	$ (37,060)	$ 35,929	$ 18,803
NET INCOME (LOSS) PER SHARE				
Basic	$ 1.53	$ (1.87)	$ 1.77	$ 0.98
Diluted	$ 1.44	$ (1.87)	$ 1.67	$ 0.93
WEIGHTED AVERAGE NUMBER OF SHARES				
Basic	20,352	19,821	20,304	19,153
Diluted	21,569	19,821	21,536	20,312

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

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

	Three months ended June 30,		Six months ended June 30,	
	2018	**2017**	**2018**	**2017**
NET INCOME (LOSS)	$ 31,054	$ (37,060)	$ 35,929	$ 18,803
Other comprehensive income (loss), net of tax:				
Cash flow hedge adjustments, net of taxes of ($569) and $685 for the three months ended June 30, 2018 and 2017, respectively, and $4 and $685 for the six months ended June 30, 2018 and 2017, respectively	(1,801)	1,119	14	1,119
Foreign currency translation adjustment, net of taxes of $0 and $8 for the three months ended June 30, 2018 and 2017, respectively, and $0 and $56 for the six months ended June 30, 2018 and 2017, respectively	(17,687)	8,888	(2,290)	10,914
Other adjustments, net of taxes of $0 for all periods	4	(151)	5	(148)
Other comprehensive (loss) income, net of taxes	(19,484)	9,856	(2,271)	11,885
TOTAL COMPREHENSIVE INCOME (LOSS)	$ 11,570	$ (27,204)	$ 33,658	$ 30,688

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)
(In thousands)

	Six months ended June 30,	
	2018	**2017**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 35,929	$ 18,803
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	35,908	29,906
Provision for doubtful accounts	399	1,925
Provision for warranty and returns	513	2,031
Stock compensation	11,759	8,805
Loss on disposal of property and equipment	360	3,010
Bond premium amortization	204	—
Debt issuance costs amortization	144	—
Bargain purchase gain	—	(63,237)
Change in fair value of contingent earn-out	2,000	6,000
Impairment of assets held for sale	269	—
Write-off of acquired intangible	5,000	—
Other	2,167	1,804
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(43,260)	(70,606)
Inventories	12,124	66,870
Prepaid expenses and other assets	3,494	(95,254)
Related-party receivables	24,143	—
Accounts payable	17,459	8,785
Accrued liabilities	(36,387)	66,479
Income taxes, including excess tax benefits and deferred income taxes	(13,268)	(14,185)
Net cash provided by (used in) operating activities	58,957	(28,864)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(47,365)	(27,199)
Proceeds from sale of asset	13,000	2
Business acquisitions, net of cash acquired	(1,300)	(157,097)
Intangible asset additions	(4,047)	(2,005)
Purchases of investment securities	(8,480)	—
Proceeds from sale of investment securities	8,900	—
Net cash used in investing activities	(39,292)	(186,299)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	12,536	10,944
Proceeds from employee stock purchase plan	—	1,326
Purchase of treasury stock	(5,469)	(3,739)
Net cash provided by financing activities	7,067	8,531
Effect of exchange rate changes on cash	(7,707)	2,473
NET INCREASE (DECREASE) CASH AND CASH EQUIVALENTS	19,025	(204,159)
CASH AND CASH EQUIVALENTS, beginning of period	290,072	445,082
CASH AND CASH EQUIVALENTS, end of period	$ 309,097	$ 240,923

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

ICU MEDICAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED
(In thousands)

	Six months ended June 30,	
	2018	**2017**
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING ACTIVITIES:		
Accounts payable for property and equipment	$ 2,508	$ 6,024
Detail of acquisitions:		
Fair value of assets acquired	$ —	$ 881,732
Cash paid for acquisitions, net of cash acquired	—	(157,097)
Non-cash seller note	—	(75,000)
Estimated working capital adjustment	—	7,512
Contingent consideration	—	(19,000)
Issuance of common stock	—	(413,139)
Bargain purchase gain	—	(63,237)
Goodwill	—	1,015
Liabilities assumed	$ —	$ 162,786

The accompanying notes are an integral part of these 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, 2017.

We are engaged in the development, manufacturing and sale of innovative medical products used in infusion therapy, and critical care markets. 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 Adopted Accounting Standards

In March 2018, the FASB issued ASU No. 2018-05, Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118. This update adds SEC paragraphs pursuant to the SEC Staff Accounting Bulletin No. 118, which expresses the view of the staff regarding application of Topic 740, Income Taxes, in the reporting period that includes December 22, 2017 - the date on which the Tax Cuts and Jobs Act was signed into law. We adopted this ASU in the prior year and it did not have a material impact on our consolidated financial statements.

In August 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The amendments in this update change both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results to facilitate financial reporting that more closely reflects an entity's risk management activities. The amendments in this update also make certain targeted improvements to simplify the application of hedge accounting guidance and ease the administrative burden of hedge documentation requirements and assessing hedge effectiveness. The amendments are effective for the fiscal years, and interim reporting periods within those years, beginning on or after December 15, 2018. For cash flow and net investment hedges existing at the date of adoption, an entity should apply a cumulative-effect adjustment related to eliminating the separate measurement of ineffectiveness to accumulated other comprehensive income with a corresponding adjustment to the opening balance of retained earnings as of the beginning of the fiscal year that an entity adopts the update. We early adopted this ASU on January 1, 2018 and this ASU did not have a material impact on our consolidated financial statements or related footnote disclosures.

In May 2017, the FASB issued ASU No. 2017-09, Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting. The amendments in this update provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. Under the ASU, an entity will account for the effects of a modification unless (i) the fair value of the modified award is the same as the fair value of the original award immediately before the original award is modified, (ii) the vesting conditions of the modified award are the same vesting conditions as the original award immediately before the original award is modified, and (iii) the classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified. The amendments in this ASU are effective prospectively for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. We adopted this ASU on January 1, 2018 and this ASU did not have a material impact on our consolidated financial statements or related footnote disclosures.

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. The amendments in this update clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The

amendments in this update provide a screen to determine when a set (integrated set of assets and activities) is not a business. If the screen is not met, it (1) requires that to be considered a business, a set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output and (2) removes the evaluation of whether a market participant could replace the missing elements. The amendments in ASU 2017-01 are effective for annual periods and interim periods within those annual periods beginning after December 15, 2017. The amendments in this ASU should be applied prospectively on or after the effective date. We adopted this ASU on January 1, 2018 and this ASU did not have a material impact on our consolidated financial statements or related footnote disclosures.

In October 2016, the FASB issued ASU No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. Current generally accepted accounting principles prohibits the recognition of current and deferred income taxes for an intra-entity asset transfer until after the asset has been sold to an outside party. The amendments in ASU 2016-16 eliminates this prohibition. Accordingly an entity should recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. Amendments in this update are effective for annual reporting periods beginning after December 15, 2017. We adopted this ASU on January 1, 2018 and this ASU did not have a material impact on our consolidated financial statements or related footnote disclosures.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. ASU 2016-15 provides specific guidance on eight cash flow issues where current guidance is unclear or does not include any specifics on classification. The eight specific cash flow issues are: debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with zero coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies, including bank-owned policies; distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. The amendments in ASU 2016-15 are effective for annual periods and interim periods within those annual periods beginning after December 15, 2017. Amendments should be applied using a retrospective transition method to each period presented. We adopted this ASU on January 1, 2018 and this ASU did not have a material impact on our consolidated financial statements or related footnote disclosures.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, which amends certain aspects of recognition, measurement, presentation and disclosure of financial instruments. This amendment requires all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under the equity method of accounting or those that result in the consolidation of the investee). The amendments in this update will be effective for fiscal years beginning after December 15, 2017. We adopted this ASU on January 1, 2018 and this ASU did not have a material impact on our consolidated financial statements or related footnote disclosures.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 removes inconsistencies and weaknesses in revenue requirements, provides a more robust framework for addressing revenue issues, improves comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets, provides more useful information to users of financial statements through improved disclosure requirements and simplifies the preparation of financial statements by reducing the number of requirements to which an entity must refer. This guidance requires that an entity depict the consideration by applying a five-step analysis in determining when and how revenue is recognized. The new model will require revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration a company expects to receive in exchange for those goods or services. On April 1, 2015, the FASB voted for a one-year deferral of the effective date of the new revenue recognition standard, ASU 2014-09. On July 15, 2015, the FASB affirmed these changes, which requires public entities to apply the amendments in ASU 2014-09 for annual reporting beginning after December 15, 2017. Subsequent to the issuance of this ASU, the FASB issued three amendments: ASU No. 2016-08, which clarifies principal versus agent considerations; ASU 2016-10, which clarifies guidance related to identifying performance obligations and licensing implementation; and ASU 2016-12, which provides narrow-scope improvements and practical expedients. All of the amendments have the same effective date mentioned above.

We adopted the standard effective January 1, 2018. See Note 5, Revenue for a discussion of the impact and the required enhanced disclosures.

Recently Issued Accounting Standards

In February 2018, the FASB issued ASU No. 2018-02, Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The amendments in this update allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The amendments in this update also require certain disclosures about stranded tax effects. The amendments in ASU 2018-02 are effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. We are currently evaluating the impact of this ASU on the consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. The amendments in this update remove the second step of the impairment test. An entity will apply a one-step quantitative test and record the amount of goodwill impairment as the excess of a reporting unit's carrying amount over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. The new guidance does not amend the optional qualitative assessment of goodwill impairment. The amendments in ASU 2017-04 are effective for the annual or interim impairment test in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. This ASU is not expected to have a material impact on our consolidated financial statements or related footnote disclosures.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This update amends the FASB's guidance on the impairment of financial instruments by requiring timelier recording of credit losses on loans and other financial instruments. The ASU adds an impairment model that is based on expected losses rather than incurred losses. The ASU also amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The amendments in this update will be effective for fiscal years beginning after December 15, 2019. Early adoption is permitted as of the fiscal years beginning after December 15, 2018. The updated guidance requires a modified retrospective adoption. We are currently evaluating the impact of this ASU on the consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The amendments in this update require an entity to recognize a right-of-use asset and lease liability for all leases with terms of more than 12 months. Recognition, measurement and presentation of expenses will depend on classification as finance or operating lease. The amendments also require certain quantitative and qualitative disclosures about leasing arrangements. The amendments in this update will be effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. The updated guidance requires a modified retrospective adoption. We are currently evaluating the impact of this ASU on the consolidated financial statements and related disclosures.

Note 3: Acquisition, Strategic Transaction and Integration Expenses

Acquisitions

On February 1, 2017, we acquired 100% interest in Fannin (UK) Limited ("Fannin") for total consideration of approximately $1.5 million. Fannin provides infusion therapy consumable products to the healthcare sector in the United Kingdom and Ireland.

On February 3, 2017, we acquired 100% interest in Pfizer Inc.’s (“Pfizer”) Hospira Infusion Systems ("HIS") business for total cash consideration of approximately $255.8 million (net of estimated working capital adjustments paid at closing), which was financed with existing cash balances and a $75 million three-year interest-only seller note. We also issued 3.2 million shares of our common stock. The fair value of the common shares issued to Pfizer was determined based on the closing price of our common shares on the issuance date, discounted to reflect a contractual lock-up period whereby Pfizer cannot transfer the shares, subject to certain exceptions, until the earlier of (i) the expiration of Pfizer’s services to us in the related transitional services agreement or (ii) eighteen months from the closing date. Additionally, Pfizer also may be entitled up to an additional $225 million in cash contingent consideration based on the achievement of performance targets for the combined company for the three years ending December 31, 2019 ("Earnout Period"). In the event that the sum of our Adjusted EBITDA as defined in the Amended and Restated Stock and Asset Purchase Agreement between us and Pfizer (the “HIS Purchase Agreement”) for the three years in the Earnout Period (the "Cumulative Adjusted EBITDA") is equal to or exceeds approximately $1 billion ("the "Earnout Target"), then Pfizer will be entitled to receive the full amount of the earnout. In the event that the Cumulative Adjusted EBITDA is equal to or greater than 85% of the Earnout Target (but less than the Earnout Target), Pfizer will be entitled to receive the corresponding percentage of the earnout. In the event that the Cumulative Adjusted EBITDA is less than 85% of the Earnout Target, then no earnout amount will be earned by Pfizer. The initial fair value of the earn-out was determined by employing a Monte Carlo simulation in a risk neutral framework. The underlying

simulated variable was adjusted EBITDA. The adjusted EBITDA volatility estimate was based on a study of historical asset volatility for a set of comparable public companies. The model includes other assumptions including the market price of risk, which was calculated as the weighted average cost of capital ("WACC") less the long-term risk-free rate. We believe that the acquisition of the HIS business, which includes IV pumps, solutions and consumable devices complements our pre-existing business by creating a company that has a complete infusion therapy product portfolio. We believe that the acquisition significantly enhances our global footprint and platform for continued competitiveness and growth.

The purchase price allocation for HIS was completed during the fourth quarter of 2017.

Final Purchase Price

The following table summarizes the final purchase price and the final allocation of the purchase price related to the assets and liabilities purchased (in thousands, except per share data):

Cash consideration for acquired assets	$	180,785
Fair value of Seller Note		75,000
Fair value of contingent consideration payable to Pfizer (long-term)		19,000
Issuance of ICU Medical, Inc. common shares:		
Number of shares issued to Pfizer		3,200
Price per share (ICU's trading closing share price on the Closing Date)	$	140.75
Market price of ICU shares issued to Pfizer	$	450,400
Less: Discount due to lack of marketability of 8.3%		(37,261)
Equity portion of purchase price		413,139
Total Consideration	$	687,924
Purchase Price Allocation:		
Cash and cash equivalents	$	31,082
Trade receivables		362
Inventories		417,622
Prepaid expenses and other assets		13,911
Property and equipment		288,134
Intangible assets[(1)]		131,000
Other assets		29,270
Accounts payable		(12,381)
Accrued liabilities		(47,936)
Long-term liabilities[(2)]		(67,170)
Total identifiable net assets acquired	$	783,894
Deferred tax liability		(25,080)
Gain on Bargain Purchase		(70,890)
Purchase Consideration	$	687,924

[(1)] Identifiable intangible assets includes $48 million of customer relationships, $44 million of developed technology - pumps and dedicated sets, $34 million of developed technology - consumables, and $5 million of in-process research and development ("IPR&D"). The weighted amortization period are as follows: approximately nine years for the total identifiable assets; eight years for customer relationships; ten years for the developed technology - pumps and dedicated sets; and twelve years for the developed technology - consumables. The IPR&D is non-amortizing until the associated research and development efforts are complete.

(2) Long-term liabilities primarily consisted of contract liabilities, product liabilities and long-term employee benefits.

The fair value of the assets acquired and liabilities assumed exceeded the fair value of the consideration to be paid resulting in a bargain purchase gain. Before recognizing a gain on a bargain purchase, we reassessed the methods used in the purchase accounting and verified that we had identified all of the assets acquired and all of the liabilities assumed, and that there were no additional assets or liabilities to be considered. We also reevaluated the fair value of the contingent consideration transferred to determine that it was appropriate. We determined that the bargain purchase gain was primarily attributable to expected restructuring costs as well as a reduction to the initially agreed upon transaction price caused primarily by revenue shortfalls across all market segments of the HIS business, negative manufacturing variance due to the drop in revenue and higher operating and required stand up costs, when compared to forecasts of the HIS business at the time that the purchase price was agreed upon. After the continuing review of the product demand and operations of the HIS business, including the resulting expected restructuring activities, we forecasted our estimated Adjusted EBITDA from the HIS business in 2017 to be $35 million - $40 million, which is considerably lower than the forecast contemplated in initial negotiations with Pfizer, which resulted in an estimated fair value of $19 million related to the $225 million earn out. Restructuring costs, if incurred, would be expensed in future periods (see Note 4: Restructuring Charges). The bargain purchase gain is separately stated below income from operations in the accompanying condensed consolidated statements of operations for the six months ended June 30, 2017.

The identifiable intangible assets and other long-lived assets acquired have been valued as Level 3 assets at fair market value. The estimated fair value of identifiable intangible assets were developed using the income approach and are based on critical estimates, judgments and assumptions derived from analysis of market conditions, discount rate, discounted cash flows, royalty rates, customer retention rates and estimated useful lives. Fixed assets were valued with the consideration of remaining economic lives. The raw materials inventory was valued at historical cost and adjusted for any obsolescence, the work in process was valued at estimated sales proceeds less costs to complete and costs to sell, and finished goods inventory was valued at estimated sales proceeds less costs to sell. The prepaid expenses and other current assets and assumed liabilities were recorded at their carrying values as of the date of the acquisition, as their carrying values approximated their fair values due to their short-term nature.

On November 29, 2017, we acquired Medical Australia for total consideration of $9.0 million. Medical Australia delivers similar consumable Infusion products as our current businesses to Australia and surrounding regions. The purchase price allocation is preliminary and subject to future revision as the acquired assets and liabilities assumed are dependent upon the finalization of the related valuations.

Strategic Transaction and Integration Expenses

We incurred and expensed $18.0 million and $37.8 million in transaction and integration expenses during the three and six months ended June 30, 2018 primarily related to the integration of the HIS business. These costs primarily related to consulting, legal and the transitional service agreement. We incurred $12.4 million and $33.5 million in transaction and integration expenses during the three and six months ended June 30, 2017, respectively. The transaction and integration expenses were primarily related to our acquisition of the HIS business.

Note 4: Restructuring Charges

During the six months ended June 30, 2018 and the year ended December 31, 2017, restructuring charges were incurred as a result of integrating the HIS acquired operations into our business and include severance costs related to involuntary employee terminations and facility exit costs related to the closure of the Dominican Republic manufacturing facility, which was sold in March 2018. All material charges in regard to these restructuring activities have been incurred as of June 30, 2018. The cumulative amount incurred to date in connection with the HIS acquisition is $21.3 million. Restructuring charges are included in the restructuring, strategic transaction and integration line item in our condensed consolidated statement of operations.

During the year ended December 31, 2015, we incurred restructuring charges related to an agreement with Dr. Lopez, a member of our Board of Directors and a former employee in our research and development department, pursuant to which we bought out Dr. Lopez's right to employment under his then-existing employment agreement. The buy-out, including payroll taxes, is paid in equal monthly installments until December 2020.

The following table summarizes the details of changes in our restructuring-related accrual for the period ended June 30, 2018 (in thousands):

	Accrued Balance December 31, 2017	Charges Incurred	Payments	Other Adjustments	Accrued Balance June 30, 2018
Severance pay and benefits	$ 915	$ 2,345	$ (2,611)	$ —	$ 649
Employment agreement buyout	1,114	—	(191)	(4)	919
Facility closure expenses	—	160	(160)	—	—
	$ 2,029	$ 2,505	$ (2,962)	$ (4)	$ 1,568

Note 5: Revenue

Adoption of ASC Topic 606, "Revenue from Contracts with Customers"

We adopted ASU No. 2014-09, Revenue from Contracts with Customers (ASC Topic 606), effective January 1, 2018 using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results for reporting beginning after January 1, 2018 are presented under ASC Topic 606, while prior period amounts are not adjusted and will continue to be reported in accordance with our historic accounting under ASC Topic 605, Revenue Recognition.

Due to the cumulative impact, net of tax, of adopting ASC Topic 606, we recorded a net increase of $6.3 million to opening retained earnings as of January 1, 2018. The impact is primarily related to our bundled arrangements where we sell software licenses and implementation services, in addition to equipment, consumables and solutions. Under ASC Topic 605, revenue for the equipment was recognized upon delivery and software licenses and implementation services were typically recognized over the contract term. Under ASC Topic 606, revenue for the bundled equipment, software and software implementation services are recognized upon implementation. This results in an acceleration of software related revenue, offset by a delay in the recognition of related revenue of the equipment. Under ASC Topic 605, consumables and solutions revenues were typically recognized upon delivery. Under ASC 606, consumables and solutions revenues are recognized as the customer obtains control of the asset, which is at shipping point. This results in an acceleration in the recognition of consumables and solutions revenue.

Additionally, the timing of revenue recognition for software license renewals changed under ASC Topic 606. Under ASC Topic 605, revenue related to software renewals was recognized on a ratable basis over the license period. Under ASC Topic 606, the license, which is considered functional IP, is considered to be transferred to the customer at a point in time, specifically, at the start of each annual renewal period. As a result, under ASC Topic 606, revenue related to our annual software license renewals is accelerated when compared to ASC Topic 605.

Revenues are recognized when control of the promised goods or services is transferred to the customer, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services.

The following tables represent the amounts by which each financial statement line item is affected in the current year as a result of applying ASC Topic 606 (in thousands):

	For the three months ended June 30, 2018			For the six months ended June 30, 2018		
	As Reported	Without Adoption of ASC 606	Effect of Adoption	As Reported	Without Adoption of ASC 606	Effect of Adoption
Revenue	$ 360,460	$ 352,288	$ 8,172	$ 732,493	$ 722,309	$ 10,184
Cost of goods sold	$ 208,660	$ 207,640	$ 1,020	$ 431,692	$ 430,651	$ 1,041
Gross Profit	$ 151,800	$ 144,648	$ 7,152	$ 300,801	$ 291,658	$ 9,143

	As of June 30, 2018		
	As Reported	Without Adoption of ASC Topic 606	Effect of Adoption
Prepaid expenses and other current assets	28,742	$ 32,885	$ (4,143)
Accrued liabilities	111,280	$ 132,936	$ (21,656)
Deferred income taxes	19,584	$ 21,583	$ (1,999)

Revenue Recognition

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

	For the three months ended June 30,		For the six months ended June 30,	
Geography	**2018**	**2017 [1]**	**2018**	**2017 [1]**
EMEA	$ 33,867	$ 31,905	$ 73,391	$ 56,858
APAC	18,410	15,673	37,034	27,089
LATAM	15,557	19,208	28,650	25,685
North America	17,810	16,537	36,945	28,098
Other	—	—	80	—
Total Foreign	85,644	83,323	176,100	137,730
United States	274,816	248,191	556,393	441,523
Total Revenues	$ 360,460	$ 331,514	$ 732,493	$ 579,253

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

	For the three months ended June 30,		For the six months ended June 30,	
Product line	**2018**	**2017 [1]**	**2018**	**2017 [1]**
Infusion Consumables	$ 123,782	$ 77,561	$ 243,693	$ 153,274
IV Solutions	135,325	134,414	279,765	231,784
Infusion Systems [2]	88,376	73,122	181,815	119,792
Critical Care	12,977	11,874	27,220	24,270
Other	—	34,543	—	50,133
Total Revenues	$ 360,460	$ 331,514	$ 732,493	$ 579,253

[1] As noted above, prior period amounts have not been adjusted under the modified retrospective method.
[2] For the three and six months ended June 30, 2018, Infusion Systems revenue includes $4.6 million and $5.9 million, respectively, in revenue recognized over time. The remainder of our revenue is recognized at a point in time. See below for details related to arrangements with multiple performance obligations.

Our primary product lines are Infusion Consumables, IV Solutions, Infusion Systems and Critical Care. The vast majority of our sales of these products are made on a stand-alone basis to hospitals, group purchasing organization member hospitals and distributors. Our product sales are typically free on board shipping point and ownership of the product transfers to the customer on shipment. As a result, revenue is typically recognized upon transfer of control of the products, which we deem to be at point of shipment.

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 warrant 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 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.

Arrangements with Multiple Performance Obligations

We also enter into arrangements which include multiple performance obligations. These arrangements typically consist of the sale of infusion systems equipment, along with annual software licenses and related software implementation services, as well as infusion consumables, IV solutions and extended warranties. For such arrangements, we allocate the transaction price to each performance obligation based on its relative standalone selling price. Equipment, software licenses and software implementation services are typically combined into a single performance obligation and recognized upon implementation. As annual software licenses are renewed, we recognize revenue for the license at a point in time, at the start of each annual renewal period. Consumables and solutions are separate performance obligations, recognized at a point in time.

The most significant judgments related to these arrangements include:

- Identifying the various performance obligations of these arrangements.
- Estimating the relative standalone selling price of each performance obligation, typically using directly observable method or calculated on a cost plus margin basis method.

Contract balances

The following table presents our changes in the contract balances for the six months ended June 30, 2018 (in thousands):

	Contract Liabilities
Beginning balance, January 1, 2018	$ (7,066)
Equipment revenue recognized	1,971
Equipment revenue deferred due to implementation	(2,733)
Software revenue recognized	4,685
Software revenue deferred due to implementation	(4,845)
Ending balance, June 30, 2018	$ (7,988)

As of June 30, 2018, revenue from remaining performance obligations related to implementation of software and equipment is $6.5 million. We expect to recognize substantially all of this revenue within the next six months. Revenue from remaining performance obligations related to annual software licenses is $1.5 million. We expect to recognize substantially all of this revenue over the next twelve months.

Costs to Obtain a Contract with a Customer

As part of the cost to obtain a contract, we may pay incremental commissions to sales employees upon entering into a sales contract. Under ASC Topic 606, we have elected to expense these costs as incurred as the period of benefit is less than one year.

Practical expedients and exemptions

In addition to the practical expedient applied to sales commissions, under ASC Topic 606, we elected to apply the practical expedient for shipping and handling costs incurred after the customer has obtained control of a good. We will continue to treat these costs as a fulfillment cost rather than as an additional promised service.

Note 6: Net Income (Loss) Per Share

Basic earnings (loss) 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 that are anti-dilutive, where their exercise price exceeds the average market price of the common stock are not included in the treasury stock method calculation. There were no anti-dilutive securities for the three months ended June 30, 2018 and 2017. There were 1,548 and 61 anti-dilutive securities for the six months ended June 30, 2018 and 2017, respectively.

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

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Net income (loss)	$ 31,054	$ (37,060)	$ 35,929	$ 18,803
Weighted-average number of common shares outstanding (for basic calculation)	20,352	19,821	20,304	19,153
Dilutive securities	1,217	—	1,232	1,159
Weighted-average common and common equivalent shares outstanding (for diluted calculation)	21,569	19,821	21,536	20,312
EPS — basic	$ 1.53	$ (1.87)	$ 1.77	$ 0.98
EPS — diluted	$ 1.44	$ (1.87)	$ 1.67	$ 0.93

Note 7: Derivatives and Hedging Activities

Hedge Accounting and Hedging Program

During the second quarter of 2017, we implemented a cash flow 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.

In May 2017, we entered into a two-year cross-currency par forward contract to hedge a portion of our Mexico forecasted expenses denominated in Pesos ("MXN"). 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 instrument is recorded at fair value on the condensed consolidated balance sheets and is 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. The total notional amount of our outstanding derivative as of June 30, 2018 was approximately 330.2 million MXN. The term of our currency forward contract is May 1, 2017 to May 1, 2019. The derivative instrument matures in equal monthly amounts at a fixed forward rate of 20.01MXN/USD over the term of the two-year contract.

In January 2018, we entered into an additional six-month cross-currency par forward contract that extends our current hedge of a portion of our Mexico forecasted expenses denominated in MXN. The total notional amount of this outstanding derivative as of June 30, 2018 was approximately 183.9 million MXN. The term of the six-month contract is May 1, 2019 to November 1, 2019. The derivative instrument matures in equal monthly amounts at a fixed forward rate of 20.43 MXN/USD over the term of the six-month contract.

The following table presents the fair values of our derivative instruments included within the Condensed Consolidated Balance Sheet as of June 30, 2018 and December 31, 2017 (in thousands):

	Derivatives		
	Condensed Consolidated Balance Sheet Location	June 30, 2018	December 31, 2017
Derivatives designated as cash flow hedging instruments			
Foreign exchange forward contract:			
	Accrued Liabilities	$ 306	$ 187
	Other long-term liabilities	265	402
Total derivatives designated as cash flow hedging instruments		$ 571	$ 589

The following table presents the amounts affecting the Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2018 and 2017 (in thousands):

	Line Item in the Condensed Consolidated Statements of Operations	Three months ended June 30,		Six months ended June 30,	
		2018	2017	2018	2017
Derivatives designated as cash flow hedging instruments					
Foreign exchange forward contracts	Cost of goods sold	$ 261	22	$ 496	$ 22

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

	Amount of Gain (Loss) Recognized in Other Comprehensive Income on Derivatives		Amount of Gain Reclassified From Accumulated Other Comprehensive Income into Income		
	Three months ended June 30,			Three months ended June 30,	
	2018	2017	Location of Gain Reclassified From Accumulated Other Comprehensive Income into Income	2018	2017
Derivatives designated as cash flow hedges:					
Foreign exchange forward contract	$ (2,109)	$ 1,826	Cost of goods sold	$ 261	$ 22
Total derivatives designated as cash flow hedging instruments	$ (2,109)	$ 1,826		$ 261	$ 22

	Amount of Gain Recognized in Other Comprehensive Income on Derivatives		Amount of Gain Reclassified From Accumulated Other Comprehensive Income into Income		
	Six months ended June 30,			Six months ended June 30,	
	2018	2017	Location of Gain Reclassified From Accumulated Other Comprehensive Income into Income	2018	2017
Derivatives designated as cash flow hedges:					
Foreign exchange forward contract	$ 514	$ 1,826	Cost of goods sold	$ 496	$ 22
Total derivatives designated as cash flow hedging instruments	$ 514	$ 1,826		$ 496	$ 22

As of June 30, 2018, we expect approximately $0.3 million of the deferred losses on the outstanding derivatives in accumulated other comprehensive income to be reclassified to net income during the next 12 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.

During the first quarter of 2017, we recognized an earn-out liability upon the acquisition of HIS from Pfizer. Pfizer may be entitled up to $225 million in cash if certain performance targets for the combined company for the three years ending December 31, 2019 are achieved. The initial fair value of the earn-out was determined by employing a Monte Carlo simulation in a risk neutral framework. The underlying simulated variable was adjusted EBITDA. The adjusted EBITDA volatility estimate was based on a study of historical asset volatility for a set of comparable public companies. The model includes other assumptions including the market price of risk, which was calculated as the WACC less the long-term risk free-rate. The initial value assigned to the contingent consideration was a result of forecasted product demand of our HIS business, as discussed further in Note 3: Acquisition, Strategic Transaction and Integration Expenses. At each reporting date subsequent to the acquisition we re-measure the earn-out using the same methodology above and recognize any changes in value. If the probability of achieving the performance target significantly changes from what we initially anticipated, the change could have a significant impact on our financial statements in the period recognized. Our contingent earn-out liability is separately stated in our condensed consolidated balance sheets.

The following table provides a reconciliation of the Level 3 earn-out liability measured at estimated fair value as of December 31, 2017 to June 30, 2018 (in thousands):

	Earn-out Liability
Accrued balance, December 31, 2017	$ 27,000
Change in fair value of earn-out (included in income from operations as a separate line item)	2,000
Accrued balance, June 30, 2018	$ 29,000

The fair value of the earn-out at June 30, 2018 changed from the fair value calculated at December 31, 2017 due to a change in the underlying cumulative adjusted EBITDA forecast, and changes in certain assumptions used in the Monte Carlo simulation, as detailed in the below table.

The following table provides quantitative information about Level 3 inputs for fair value measurement of our earn-out liability as of December 31, 2017 and June 30, 2018. Significant increases or decreases in these inputs in isolation could result in a significant impact on our fair value measurement:

Simulation Input	As of June 30, 2018	As of December 31, 2017
Adjusted EBITDA Volatility	25.00%	26.00%
WACC	8.25%	8.75%
20-year risk free rate	2.91%	2.58%
Market price of risk	5.20%	5.99%
Cost of debt	4.72%	4.08%

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.

The assets related to our Dominican Republic manufacturing facilities were classified as assets held-for-sale as of December 31, 2017. These assets are separately stated in our condensed consolidated balance sheet. The fair value of these Level 3 assets was determined as part of the HIS business valuation and was based on a market approach using comparable building and land sales data and the analysis of market conditions.

There were no transfers between Levels during the six months ended June 30, 2018.

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 June 30, 2018			
	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	$ 18,069	$ —	$ 18,069	$ —
Long-term	5,947	—	5,947	—
Total Assets	$ 24,016	$ —	$ 24,016	$ —
Liabilities:				
Earn-out liability	$ 29,000	$ —	$ —	$ 29,000
Foreign exchange forwards:				
Accrued liabilities	306	—	306	—
Other long-term liabilities	265	—	265	—
Total Liabilities	$ 29,571	$ —	$ 571	$ 29,000

	Fair value measurements at December 31, 2017			
	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	$ 10,061	$ —	$ 10,061	$ —
Long-term	14,579	—	14,579	—
Total Assets	$ 24,640	$ —	$ 24,640	$ —
Liabilities:				
Earn-out liability	$ 27,000	$ —	$ —	$ 27,000
Foreign exchange forwards:				
Accrued liabilities	187	—	187	—
Other long-term liabilities	402	—	402	—
Total Liabilities	$ 27,589	$ —	$ 589	$ 27,000

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

	Fair value measurements at December 31, 2017			
	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:				
Assets held-for-sale	$ 12,489	$ —	$ —	$ 12,489
Total Assets	$ 12,489	$ —	$ —	$ 12,489

Note 9: Investment Securities

Our investment securities currently consist of short-term and long-term corporate bonds. Our investment securities are considered available-for-sale and are “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 (loss). 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 on our condensed consolidated statements of income. 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 2018 and 2020. All short-term investment securities are all callable within one year.

Our short and long-term investment securities consisted of the following (in thousands):

	As of June 30, 2018		
	Amortized Cost	Unrealized Holding Gains (Losses)	Fair Value
Short-term corporate bonds	$ 18,069	$ —	$ 18,069
Long-term corporate bonds	5,947	—	5,947
Total investment securities	$ 24,016	$ —	$ 24,016

	As of December 31, 2017		
	Amortized Cost	Unrealized Holding Gains (Losses)	Fair Value
Short-term corporate bonds	$ 10,061	$ —	$ 10,061
Long-term corporate bonds	14,579	—	14,579
Total investment securities	$ 24,640	$ —	$ 24,640

Note 10: Prepaid Expenses, Other Current Assets and Related-Party Receivables

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

	June 30, 2018	December 31, 2017
Deposits	$ 431	$ 21,940
Other prepaid expenses and receivables	13,897	4,208
Prepaid insurance and property taxes	2,045	2,580
VAT/GST receivable	5,577	8,097
Deferred tax charge	1,912	1,326
Other	4,880	3,135
	$ 28,742	$ 41,286

Related-party receivables consist of the following (in thousands):

	June 30, 2018	December 31, 2017
Third-party receivables due from Pfizer	$ 66,651	$ 36,425
HIS business acquisition related	11,707	62,382
	$ 78,358	$ 98,807

Third-party receivables due from Pfizer relates to trade accounts receivable that has already been collected from customers by Pfizer on our behalf. HIS business acquisition related receivables include amounts due from Pfizer related to the manufacturing and supply agreements and amounts we prepaid to Pfizer for operational expenses under the transition services agreement.

Pfizer became a related party to us when we issued 3.2 million shares of our common stock as partial consideration for the acquisition of HIS. On February 3, 2017, we entered into a transitional services agreement and two Manufacturing and Supply Agreements ("MSAs") with Pfizer (see Note 19, Collaborative and Other Arrangements). During the three and six months ended June 30, 2018, the revenue for goods manufactured for Pfizer was $19.5 million and $37.6 million, respectively. During the three and six months ended June 30, 2017, the revenue for goods manufactured for Pfizer was $21.0 million and $35.7 million, respectively. For the three and six months ended June 30, 2018, the cost of product manufactured by Pfizer for us was $22.6 million and $39.8 million, respectively. For the three and six months ended June 30, 2017, the cost of product manufactured by Pfizer for us was $26.3 million and $38.8 million, respectively.

Note 11: Inventories

Inventories consisted of the following (in thousands):

	June 30, 2018	December 31, 2017
Raw material	$ 78,716	$ 82,397
Work in process	53,121	42,304
Finished goods	157,113	163,956
Total inventories	$ 288,950	$ 288,657

Note 12: Property and Equipment

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

	June 30, 2018	December 31, 2017
Machinery and equipment	$ 211,648	$ 220,999
Land, building and building improvements	208,182	206,846
Molds	56,187	56,253
Computer equipment and software	44,821	44,408
Furniture and fixtures	8,285	7,361
Instruments placed with customers*	39,038	15,812
Construction in progress	83,788	57,144
Total property and equipment, cost	651,949	608,823
Accumulated depreciation	(236,222)	(210,139)
Property and equipment, net	$ 415,727	$ 398,684

*Instruments placed with customers consist of drug-delivery and monitoring systems placed with customer under operating leases.

Depreciation expense was $13.6 million and $27.8 million for the three and six months ended June 30, 2018, respectively, as compared to $14.4 million and $22.6 million for the three and six months ended June 30, 2017.

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 December 31, 2017	$ 12,357
Goodwill acquired	1,300
Other	—
Currency translation	(309)
Balance as of June 30, 2018	$ 13,348

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	June 30, 2018		
		Cost	Accumulated Amortization	Net
Patents	10	$ 18,606	$ 11,537	$ 7,069
Customer contracts	9	5,319	5,082	237
Non-contractual customer relationships	9	55,979	9,929	46,050
Trademarks	4	425	425	—
Trade name	15	7,310	1,340	5,970
Developed technology	11	81,963	11,379	70,584
Total amortized intangible assets		$ 169,602	$ 39,692	$ 129,910
IPR&D		$ 4,902	—	$ 4,902
Total intangible assets		$ 174,504	$ 39,692	$ 134,812

	Weighted Average Amortization Life in Years	December 31, 2017		
		Cost	Accumulated Amortization	Net
Patents	10	$ 17,064	$ 10,970	$ 6,094
Customer contracts	9	5,319	4,892	427
Non-contractual customer relationships	9	55,080	6,562	48,518
Trademarks	4	425	425	—
Trade name	15	7,310	1,096	6,214
Developed technology	11	81,846	7,571	74,275
Total amortized intangible assets		$ 167,044	$ 31,516	$ 135,528
IPR&D		$ 8,225		$ 8,225
Total intangible assets		$ 175,269	$ 31,516	$ 143,753

Intangible assets with definite lives are amortized on a straight-line basis over their estimated useful lives. During the three and six months ended June 30, 2018, intangible asset amortization expense was $4.0 million and $8.1 million, respectively, as compared to $3.9 million and $7.3 million for the three and six months ended June 30, 2017, respectively.

As of June 30, 2018 estimated annual amortization for our intangible assets for each of the next five years is approximately (in thousands):

Remainder of 2018	$ 8,327
2019	15,964
2020	15,820
2021	15,517
2022	15,378
Thereafter	58,904
Total	$ 129,910

Note 14: Accrued Liabilities and Other Long-Term Liabilities

Accrued liabilities consist of the following (in thousands):

	June 30, 2018	December 31, 2017
Salaries and benefits	$ 23,706	$ 20,745
Incentive compensation	25,286	40,682
Accrued product field action	8,285	11,810
Third-party inventory	2,014	4,284
Consigned inventory	1,118	5,210
Accrued sales taxes	—	6,291
Restructuring accrual	1,018	1,290
Contract liabilities	6,460	3,326
Accrued other taxes	1,798	2,771
Accrued professional fees	13,710	13,319
Legal accrual	2,425	3,538
Outside commissions	1,191	725
Warranties and returns	3,051	3,360
Accrued freight	6,748	5,696
Other	14,470	9,017
	$ 111,280	$ 132,064

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

	June 30, 2018	December 31, 2017
Unfavorable contract liabilities	$ 20,468	$ 40,148
Contract settlement	2,500	—
Benefits	1,678	2,104
Contract liabilities	1,528	7,099
Other	5,631	5,975
	$ 31,805	$ 55,326

Note 15: Income Taxes

On December 22, 2017, the Tax Cuts and Jobs Act (the “Tax Act”) was enacted into legislation, which includes a broad range of provisions affecting businesses. The Tax Act significantly revises how companies compute their U.S. corporate tax liability by, among other provisions, reducing the corporate tax rate from 35% to 21% for tax years beginning after December 31, 2017. Our accounting for the Tax Act is incomplete. As noted at year-end, however, we were able to reasonably estimate certain effects and, therefore, recorded provisional adjustments associated with the toll charge on undistributed foreign earnings and profits and revaluation of deferred taxes. We have not made any additional measurement-period adjustments related to these items during the quarter. However, we are continuing to gather additional information to complete our accounting for these items and expect to complete our accounting within the prescribed measurement period.

Income taxes were accrued at an estimated effective tax rate of (8)% and (182)% for the six months ended June 30, 2018 and 2017, respectively. Those rates differ from that computed at the federal statutory rate of 21% for the six months ended June 30, 2018 and the federal statutory rate of 35% for the six months ended June 30, 2017.

The effective tax rate for the six months ended June 30, 2018 differs from the federal statutory rate of 21% because of the effect in the mix of U.S. and foreign incomes, state income taxes, tax credits and the impact of a contract settlement. The contract settlement resulted in a tax benefit of $5.7 million, which is treated as a discrete item. The effective tax rate during the six months ended June 30, 2018 also included a tax benefit of $11.2 million related to the excess tax benefits recognized on stock option exercises and the vesting of restricted stock units during the period, which is treated as a discrete item and excluded from determining our annual estimated effective tax rate.

The effective tax rate for the six months ended June 30, 2017 differs from the federal statutory rate of 35% because of the effect the mix of U.S. and foreign incomes, state income taxes, tax credits and impact of the gain on bargain purchase. The tax effect of the gain on bargain purchase is treated as a discrete item part of purchase accounting and is not a component of the income tax provision. The effective tax rate during the six months ended June 30, 2017 also included a material tax benefit of $9.9 million related to the excess tax benefits recognized on stock option exercises and the vesting of restricted stock units during the period, which is treated as a discrete item and excluded from determining our annual estimated effective tax rate.

Note 16: Long-Term Obligations

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

During 2017, we entered into a Credit Facility with various lenders for $150 million, with Wells Fargo Bank, N.A. as the administrative agent, swingline lender and issuing lender. As of June 30, 2018, we had no borrowings and $150 million of availability under the Credit Facility. The Credit Facility matures on November 8, 2022.

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 June 30, 2018.

Note 17: Stockholders' Equity

Treasury Stock

In July 2010, our Board of Directors approved a common stock purchase plan to purchase up to $40.0 million of our common stock. This plan has no expiration date. During the six months ended June 30, 2018, we did not purchase any shares of our common stock under the stock purchase plan. As of June 30, 2018, the remaining authorized amount under this purchase plan is approximately $7.2 million. 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 six months ended June 30, 2018, we withheld 23,611 shares of our common stock from employee vested restricted stock units in consideration for $5.5 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 Income (Loss)

The components of accumulated other comprehensive 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 December 31, 2017	$ (14,578)	$ (365)	$ (16)	$ (14,959)
Other comprehensive income before reclassifications	(2,290)	391	5	(1,894)
Amounts reclassified from AOCI	—	(377)	—	(377)
Other comprehensive income	(2,290)	14	5	(2,271)
Balance as of June 30, 2018	$ (16,868)	$ (351)	$ (11)	$ (17,230)

Note 18: Commitments and Contingencies

Legal Proceedings

Beginning in November 2016, purported class actions were filed in the U.S. District Court for the Northern District of Illinois against Pfizer subsidiaries, Hospira, Inc., Hospira Worldwide, Inc. and certain other defendants relating to the intravenous saline solutions part of the HIS business. Plaintiffs seek to represent classes consisting of all persons and entities in the U.S. who directly purchased intravenous saline solution sold by any of the defendants from January 1, 2013 until the time the defendants' allegedly unlawful conduct ceases. Plaintiffs allege that the defendants' conduct restricts output and artificially fixes, raises, maintains and/or stabilizes the prices of intravenous saline solution sold throughout the U.S. in violation of federal antitrust laws. Plaintiffs seek treble damages (for themselves and on behalf of the putative classes) and an injunction against defendants for alleged price overcharges for intravenous saline solution in the U.S. since January 1, 2013. On July 5, 2018, the District Court granted defendants' motion to dismiss the operative complaint, but is allowing plaintiff to file a second amended complaint. On February 3, 2017, we completed the acquisition of the HIS business from Pfizer. This litigation is the subject of a claim for indemnification against us by Pfizer and a cross-claim for indemnification against Pfizer by us under the HIS Purchase Agreement.

In addition, in August 2015, the New York Attorney General issued a subpoena to Hospira, Inc. requesting that the company provide information regarding certain business practices in the intravenous solutions part of the HIS business. Separately, in April 2017, we received a grand jury subpoena issued by the United States District Court for the Eastern District of Pennsylvania, in connection with an investigation by the U.S. Department of Justice, Antitrust Division. The subpoena calls for production of documents related to the manufacturing, selling, pricing and shortages of intravenous solutions, including saline, as well as communications among market participants regarding these issues. The Department of Justice investigation is the subject of cross-claims for indemnification by both us and Pfizer under the HIS Purchase Agreement. We have coordinated with Pfizer to produce records to the New York Attorney General and the Department of Justice.

In April 2018, the U.S. Department of Justice issued a HIPAA subpoena to Hospira, Inc., requesting production of documents and records regarding the manufacturing, production, testing, quality and validation of the Sapphire™ infusion pumps, sets and related accessories distributed by the Company. We are coordinating with Pfizer to produce the requested records to the Department of Justice.

In March 2018, a dispute with a product partner resulted in a redefinition of our contractual arrangement and in the rights and remedies determined under such arrangement. The resolution of the dispute resulted in a $28.9 million net charge to the condensed consolidated statement of operations.

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

We have a contractual earn-out arrangement in connection with our acquisition of the HIS business, whereby Pfizer may be entitled up to an additional $225 million in cash upon achievement of performance targets for the company for the three years ending December 31, 2019 (see Note 3: Acquisition, Strategic Transaction and Integration Expenses). The amount to be paid cannot be determined until the earn-out period has expired.

Commitments

Rental expense under our non-cancellable operating lease agreements was $2.9 million and $5.7 million for the three and six months ended June 30, 2018, respectively, as compared to $1.8 million and $3.0 million for the three and six months ended June 30, 2017, respectively.

Note 19: Collaborative and Other Arrangements

On February 3, 2017, we entered into two 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 MSA's 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 February 3, 2017, as part of the HIS business acquisition, we entered into an agreement with Pfizer, whereby Pfizer will provide certain transitional services to us for finance, business technology, regulatory, human resources, global operations, procurement, quality and global commercial operation services ("Enabling Function Services"). We pay a monthly service fee for each service provided, and share equally with Pfizer in certain set-up costs and, as applicable, service exit costs. Our share of the set-up costs and service exit costs, in the aggregate, are not to exceed $22.0 million. The service fees are subject to a fee cap of (i) $62.5 million during the initial twelve month period and (ii) $31.3 million during the subsequent six month period. Only the Enabling Function Services are subject to the fee cap, any services provided after expiration of the agreement or services that are not Enabling Function Services may result in service fees outside the fee cap. The service fees are intended to reasonably approximate Pfizer’s cost of providing the Enabling Function Services. We may terminate, in whole only, any particular service and the fee cap would be reduced proportionate to the services terminated. Partial reduction in the provision of any specific service may be made but only with the prior written consent of Pfizer.

On February 3, 2017, as part of the HIS business acquisition, we also entered into a reverse transitional services agreement, where we will provide to Pfizer certain transitional services ranging in term from three to eighteen months. Services include support for real estate, research and development, infrastructure, logistics, quality, site operations, safety, commercial and finance, and regulatory support services.

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, 2017 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.

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 95 countries throughout the world.

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

Infusion Consumables

Infusion Therapy

- 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.
- Neutron® Catheter Patency Connector, 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.
- Tego® Hemodialysis Connector
- NovaCath® and SuperCath® Peripheral IV Catheters

Closed System Transfer Devices (CSTD)

- ChemoLock® Closed System Transfer Device (CSTD) is a Pharmacy preferred CSTD used for the preparation and administration of hazardous drugs.
- ChemoClave® CSTD, is an ISO standard and universally compatible CSTD used for the preparation and administration of hazardous drugs.
- Diana™ hazardous drug compounding system, used for the preparation of hazardous drugs.

IV Solutions

- *Sterile Solutions* - IV solutions, normal saline, Ringers etc. is used to replenish fluids and electrolytes by IV infusion.
- *Irrigation Solutions* - Used externally on open wounds to hydrate the wound, remove deep debris, assist with visual examination, to prevent infection and improve healing.
- *Nutritionals* - Solutions that feed vitamins, minerals and other natural therapeutic substances directly into the blood stream. We are committed to helping our customers deliver more comprehensive patient-care therapies, delivering an extensive source of nutrients for patients who cannot consume a normal diet.

Infusion Systems

Infusion Pump Hardware - Our current pump platform includes four infusion pumps:

- *Plum 360*™: The Plum 360™ infusion pump is a ICU Medical MedNet™ ready large volume infusion pump with an extensive drug library and wireless capability.
- *LifeCare PCA*™: The LifeCare PCA™ infusion pump is a ICU Medical MedNet™ ready patient-controlled analgesia pump.

- *SapphirePlus*™: The SapphirePlus™ infusion pump is a ICU Medical MedNet™ ready large volume infusion pump with an extensive drug library and wireless capability. The SapphirePlus is designed and manufactured by Q Core.

- *Sapphire*™: The Sapphire™ infusion pump is a compact infusion system used in ambulatory and hospital settings. The Sapphire™ infusion pump comes in multi-therapy and epidural-only configurations. The Sapphire is designed and manufactured by Q Core.

We offer the ICU Medical MedNet™ safety software system, which is designed for hospitals to customize intravenous drug dosage limits and track drug delivery to help prevent medication errors.

Critical Care

- Hemodynamic Monitoring Systems.
  - Cogent® 2-in-1 Hemodynamic Monitoring System
  - LiDCO LX1™ Noninvasive Hemodynamic Monitoring System
  - CardioFlo® Hemodynamic Monitoring Sensor
  - TriOx® PICC Minimally Invasive Venous Oximetry Sensor
- SafeSet® Closed Blood Sampling and Conservation System.
- Transpac® Consumable Blood Pressure Transducers.
- Q2 Plus™ CCO/SvO2 (continuous cardiac output/oximetry).

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 June 30,				Six months ended June 30,			
	2018		2017		2018		2017	
	$	% of Revenue	$	% of Revenue	$	% of Revenue	$	% of Revenue
Domestic	$ 274.8	76%	$ 248.2	75%	$ 556.4	76%	$ 441.5	76%
International	85.7	24%	83.3	25%	176.1	24%	137.8	24%
Total Revenue	$ 360.5	100%	$ 331.5	100%	$ 732.5	100%	$ 579.3	100%

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

	Three months ended June 30,		Six months ended June 30,	
Product line	2018	2017	2018	2017
Infusion Consumables	33%	23%	33%	26%
IV Solutions	38%	41%	38%	40%
Infusion Systems	25%	22%	25%	21%
Critical Care	4%	4%	4%	4%
Other	—%	10%	—%	9%
	100%	100%	100%	100%

We manage our product distribution in the U.S. through a network of three owned distribution facilities, as well as, through direct channels, which include independent distributors and the end users of our products, and as original equipment manufacturer suppliers. Most of our independent distributors handle the full line of our products. Internationally, we manage our operations through the Netherlands, which utilizes international regional hubs and we also manage our operations through independent distributors.

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. As a result of this marketing and distribution strategy we derive most of our revenue from a relatively small number of distributors and manufacturers. Although we believe that we are not dependent on any single distributor for distribution of our products, the loss of a strategic relationship with a customer or a decline in demand for manufacturing customers' 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 can experience fluctuations in net sales as a result of variations in the ordering patterns of our largest customers, which may be driven more by production scheduling and their inventory levels, and less by seasonality. Our expenses often do not fluctuate in the same manner as net sales, which may cause fluctuations in operating income that are disproportionate to fluctuations in our revenue.

Acquisitions

On February 1, 2017, we acquired 100% interest in Fannin for total consideration of approximately $1.5 million. Fannin provides infusion therapy consumable products to the healthcare sector in the United Kingdom and Ireland.

On February 3, 2017, we acquired 100% interest in Pfizer's HIS business for total cash consideration of approximately $255.8 million (net of estimated working capital adjustments paid at closing), which was financed with existing cash balances and a $75 million three-year interest-only seller note. We also issued 3.2 million shares of our common stock. The fair value of the common shares issued to Pfizer was determined based on the closing price of our common shares on the issuance date, discounted to reflect a contractual lock-up period whereby Pfizer cannot transfer the shares, subject to certain exceptions, until the earlier of (i) the expiration of Pfizer’s services to us in the related transitional services agreement or (ii) eighteen months.

On November 29, 2017, we acquired Medical Australia for total consideration of $9.0 million. Medical Australia delivers similar consumable Infusion products as our current businesses to Australia and surrounding regions.

Consolidated Results of Operations

We present income statement data in Part I, Item 1 - Financial Statements. The following table shows, for the three and six months ended June 30, 2018 and 2017, the percentages of each income statement caption in relation to total revenue:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Total revenue	100%	100 %	100%	100 %
Gross margin	42%	27 %	41%	31 %
Selling, general and administrative expenses	23%	26 %	23%	26 %
Research and development expenses	4%	4 %	4%	4 %
Restructuring and strategic transaction	5%	6 %	5%	9 %
Change in fair value of contingent earn-out	2%	2 %	—%	1 %
Contract settlement	—%	— %	4%	— %
Total operating expenses	34%	38 %	36%	40 %
Income (loss) from operations	8%	(11)%	5%	(9)%
Bargain purchase gain	—%	— %	—%	11 %
Interest expense	—%	— %	—%	— %
Other income, net	—%	(1)%	—%	(1)%
Income (loss) before income taxes	8%	(12)%	5%	1 %
Benefit for income taxes	—%	(1)%	—%	(2)%
Net income (loss)	8%	(11)%	5%	3 %

Infusion Consumables

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

	Three months ended June 30,				Six months ended June 30,			
	2018	2017	$ Change	% Change	2018	2017	$ Change	% Change
Infusion Consumables	$ 123.8	$ 77.5	$ 46.3	59.7%	$ 243.7	$ 153.2	$ 90.5	59.1%

Infusion Consumables sales increased for the three months ended June 30, 2018, as compared to the same period in the prior year, primarily due to sales to new customers. Infusion Consumables sales increased for the six months ended June 30, 2018, as compared to the same period in the prior year, primarily due to the timing of the close of the 2017 HIS acquisition and new customers. The six months ended June 30, 2017 includes approximately five months of revenue from the point of closing of the transaction to the end of the 2017 second quarter.

IV Solutions

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

	Three months ended June 30,				Six months ended June 30,			
	2018	2017	$ Change	% Change	2018	2017	$ Change	% Change
IV Solutions	$ 135.4	$ 134.4	$ 1.0	0.7%	$ 279.8	$ 231.8	$ 48.0	20.7

IV Solutions sales increased for the three months ended June 30, 2018, as compared to the same period in the prior year, due to increased demand due to new customers. IV Solutions sales increased for the six months ended June 30, 2018, as compared to the same period in the prior year, due to the timing of the HIS acquisition, increased demand due to market shortages in the first three months of the year and due to new customers. The six months ended June 30, 2017 includes approximately five months of revenue from the point of closing of the transaction to the end of the 2017 second quarter.

Infusion Systems

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

	Three months ended June 30,				Six months ended June 30,			
	2018	2017	$ Change	% Change	2018	2017	$ Change	% Change
Infusion Systems	$ 88.4	$ 73.1	$ 15.3	20.9	$ 181.8	$ 119.8	$ 62.0	51.8

Infusion Systems revenue increased for the three and six months ended June 30, 2018, as compared to the same periods in the prior year, primarily due to the revenue related to certain foreign jurisdiction HIS entities that had deferred closes during 2017. The revenue related to these deferred close entities for the three and six months ended June 30, 2017 was included in our "Other Revenue", see below, as we were unable to allocate the revenue to a specific product line. In addition, the six months ended June 30, 2017 includes approximately five months of revenue from the point of closing of the HIS transaction to the end of the current quarter.

Critical Care

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

	Three months ended June 30,				Six months ended June 30,			
	2018	2017	$ Change	% Change	2018	2017	$ Change	% Change
Critical Care	$ 12.9	$ 11.9	$ 1.0	8.4	$ 27.2	$ 24.3	$ 2.9	11.9%

Critical Care revenue increased for the three and six months ended June 30, 2018, as compared to the same periods in the prior year, primarily due to new product shipments of the Cogent patient monitor and due to timing.

Other Revenue

As mentioned above, as part of the 2017 HIS business acquisition the closing of certain HIS foreign jurisdiction entities were deferred. For the three and six months ended June 30, 2017, the revenue data related to these deferred closing entities was not available by product line, therefore our other revenue below includes the revenue related to these entities. As of December 31, 2017, all of the deferred closing entities were effectively closed resulting in the ability to allocate all of the revenue to a specific product line for the three and six months ended June 30, 2018.

The following table summarizes our total Other Revenue (in millions):

	Three months ended June 30,				Six months ended June 30,			
	2018	2017	$ Change	% Change	2018	2017	$ Change	% Change
Other Revenue	$ —	$ 34.6	$ (34.6)	(100.0)	$ —	$ 50.1	*	*

* Not meaningful

Gross Margins

For the three and six months ended June 30, 2018, gross margins were 42.1% and 41.1% respectively, as compared to 26.6% and 30.6% respectively, for the three and six months ended June 30, 2017. The increase in gross margin for the three and six months ended June 30, 2018, as compared to the same periods in the prior year is primarily due to the impact of the step-up of inventory from our purchase accounting that impacted the three and six months ended June 30, 2017. As well as increased factory absorption and favorable product mix.

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

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

	Three months ended June 30,				Six months ended June 30,			
	2018	2017	$ Change	% Change	2018	2017	$ Change	% Change
SG&A	$ 83.5	$ 85.1	$ (1.6)	(2)%	$ 170.5	$ 150.0	$ 20.5	14%

SG&A expenses stayed relatively flat for the three months ended June 30, 2018 as compared to the same period in the prior year.

For the six months ended June 30, 2018 expenses increased as compared to the same period in the prior year. The increase in expenses was primarily attributable to the continued impact from the integration of HIS. Information technology expenses increased $9.8 million, compensation increased $6.4 million, legal expenses increased $4.4 million, and travel and related expenses increased $2.6 million. Information technology expense increases were due to the HIS post-acquisition needs to stand up the company. Compensation increased due to an increase in headcount from new employees hired to support the company post-acquisition of HIS. Legal expenses increased due to the continued integration of HIS and legal services needed to support a larger business. Travel and related expenses increased primarily due to the continued integration of HIS and the post-acquisition operational activity.

Research and Development ("R&D") Expenses

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

	Three months ended June 30,				Six months ended June 30,			
	2018	2017	$ Change	% Change	2018	2017	$ Change	% Change
R&D	$ 13.6	$ 13.0	$ 0.6	4.6%	$ 26.2	$ 24.6	$ 1.6	6.5%

R&D expenses increased for the three and six months ended June 30, 2018, as compared to the same periods in the prior year due to post-acquisition operational activity attributable to a larger business.

Restructuring and Strategic Transaction and Integration Expenses

Restructuring and strategic transaction and integration expenses were $18.7 million and $40.3 million for the three and six months ended June 30, 2018, as compared to $19.9 million and $49.3 million for the three and six months ended June 30, 2017.

Restructuring charges

Restructuring charges were $0.7 million and $2.5 million for the three and six months ended June 30, 2018, respectively. These charges were related to (i) severance costs from the reduction in our workforce as a result of the acquisition and integration of HIS and (ii) an agreement with a member of our Board of Directors and a former employee in our research and development department, pursuant to which we bought out the employee under his then-existing employment agreement. We expect to pay unpaid restructuring charges as of June 30, 2018, by the end of 2018.

Restructuring charges were $7.5 million and $15.8 million for the three and six months ended June 30, 2017, respectively. These charges were related to (i) severance costs from the reduction in our workforce needed to eliminate duplicative positions created as a result of the HIS acquisition, (ii) the closing of our Dominican Republic manufacturing facilities and related expenses incurred associated with that closure and transfer of assets and production to our Costa Rica and Mexico manufacturing facilities and (iii) an agreement with a member of our Board of Directors and a former employee in our research and development department, pursuant to which we bought out the employee under his then-existing employment agreement.

Strategic transaction and integration expenses

Strategic transaction and integration expenses were $18.0 million and $37.8 million for the three and six months ended June 30, 2018 respectively, primarily related to our integration of the HIS business.

Strategic transaction and integration expenses were $12.4 million and $33.5 million for the three and six months ended June 30, 2017 respectively, primarily related to our acquisition and integration of the HIS business.

Change in Fair Value of Earn-out

The fair value revaluation of our earn-out resulted in a change of value of $6.0 million and $2.0 million for the three and six months ended June 30, 2018, respectively.

For the three and six months ended June 30, 2017, the fair value revaluation of our earn-out resulted in a change of value of $6.0 million.

Contract Settlement

During the first quarter of 2018, we incurred a $28.9 million charge related to the resolution of a dispute with a product partner, which resulted in a redefinition of our contractual arrangement and in the rights and remedies determined under such arrangement.

Bargain Purchase Gain

The HIS acquisition resulted in a bargain purchase gain. For the three months ended March 31, 2017, we initially recognized a bargain purchase gain of $63.2 million related to this acquisition. The bargain purchase gain represents the excess of the estimated fair market value of the identifiable tangible and intangible assets acquired and liabilities assumed, net of deferred tax liabilities over the total purchase consideration. Upon the finalization of the valuations of acquired assets and liabilities associated with the HIS acquisition, we recognized a final bargain purchase gain of $70.9 million for the year ended December 31, 2017.

Interest Expense

Interest expense was $0.1 million and $0.3 million for the three and six months ended June 30, 2018. The interest expense is related to the amortization of financing cost incurred as of year-end December 31, 2017, in connection with a five-year Revolving Credit Facility (see Note 16: Long-Term Obligations in our accompanying condensed consolidated financial statements for additional information).

Interest expense was $0.5 million and $1.0 million for the three and six months ended June 30, 2017. This interest expense is related to the $75 million seller note from Pfizer as part of the HIS business acquisition. The three-year interest only seller note bore interest at LIBOR plus (i) 2.25% per year for the first 12 months, and (ii) 2.50% per annum thereafter. We have fully repaid the seller note as of December 31, 2017.

Income Taxes

Income taxes were accrued at an estimated effective tax rate of (8)% and (182)% for the six months ended June 30, 2018, and 2017, respectively.

On December 22, 2017, the Tax Act was enacted into legislation, which includes a broad range of provisions affecting businesses. The Tax Act significantly revises how companies compute their U.S. corporate tax liability by, among other provisions, reducing the corporate tax rate from 35% to 21% for tax years beginning after December 31, 2017. Our accounting for the Tax Act is incomplete. As noted at year-end, however, we were able to reasonably estimate certain effects and, therefore, recorded provisional adjustments associated with the toll charge on undistributed foreign earnings and profits and revaluation of deferred taxes. We have not made any additional measurement-period adjustments related to these items during the quarter. However, we are continuing to gather additional information to complete our accounting for these items and expect to complete our accounting within the prescribed measurement period.

The effective tax rate for the six months ended June 30, 2018 differs from the federal statutory rate of 21% because of the effect in the mix of U.S. and foreign incomes, state income taxes, tax credits and the impact of a contract settlement. The contract settlement resulted in a tax benefit of $5.7 million, which is treated as a discrete item.

The effective tax rate during the six months ended June 30, 2018 also included a tax benefit of $11.2 million related to the excess tax benefits recognized on stock option exercises and the vesting of restricted stock units during the period, which is treated as a discrete item and excluded from determining our annual estimated effective tax rate.

The effective tax rate for the six months ended June 30, 2017 differs from the federal statutory rate of 35% because of the effect of the mix of foreign and state incomes, state taxes, tax credits, and impact of the gain on bargain purchase. The tax effect of the gain on bargain purchase is treated as a discrete item part of purchase accounting and is not a component of the income tax provision. The effective tax rate during the six months ended June 30, 2017 also included a tax benefit of $9.9 million related to the excess tax benefits recognized on stock option exercises and the vesting of restricted stock units during the period, which is treated as a discrete item and excluded from determining our annual estimated effective tax rate.

Liquidity and Capital Resources

During the first six months of 2018, our cash, cash equivalents, short-term and long-term investments increased by $18.4 million from $314.7 million at December 31, 2017 to $333.1 million at June 30, 2018.

Cash Flows from Operating Activities

Our net cash provided by operations for the six months ended June 30, 2018 was $59.0 million. Net income plus adjustments for non-cash net expenses contributed $94.7 million. Net cash used in operations as a result of changes in operating assets and liabilities was $35.7 million. The changes in operating assets and liabilities included a $43.3 million increase in accounts receivable, a $36.4 million decrease in accrued liabilities, and $13.3 million in net changes in income taxes, including excess tax benefits and deferred income taxes. Offsetting these amounts was a $24.1 million decrease in related party receivables, a $17.5 million increase in accounts payable, a $12.1 million decrease in inventories and a $3.5 million decrease in prepaid expenses and other assets. The increase in accounts receivable is due to the increase in revenue. The decrease in accrued liabilities was primarily a result of the payout of accrued compensation. The net changes in income taxes was a result of the timing of payments. The decrease in related-party receivables was primarily due to the timing of amounts received from Pfizer. The increase in accounts payable was due to the timing of payments. The decrease in inventory was primarily due to our continued inventory reduction effort. The decrease in prepaid expenses and other assets was primarily due to the settlement of a deposit on inventory.

Our net cash used in operations for the six months ended June 30, 2017 was $28.9 million. Net income plus adjustments for non-cash net expenses contributed $9.0 million to cash provided by operations, and cash used by changes in operating assets and liabilities was $37.9 million. The changes in operating assets and liabilities included a $95.3 million increase in prepaid expenses and other assets, a $70.6 million increase in accounts receivable and $14.2 million in net changes in income taxes, including excess tax benefits and deferred income taxes. Offsetting these amounts was a $66.9 million decrease in inventories, a $66.5 million increase in accrued liabilities and an $8.8 million increase in accounts payable. The increase in prepaid expenses and other assets was primarily due to amounts paid for transitional service arrangement fees, working capital adjustments and other HIS-related amounts. The increase in accounts receivable is due to the increase in revenue. The net changes in income taxes was a result of the timing of payments. The increase in accrued liabilities was

primarily a result of increased salary and benefits due to a larger workforce. The decrease in inventory was due to a planned inventory reduction of our acquired inventory to manage working capital needs. The increase in accounts payable was due to the increase in expenses related to the post-acquisition operations.

Cash Flows from Investing Activities

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

	Six months ended June 30,			
	2018	2017	Change	
Investing Cash Flows:				
Purchases of property and equipment	$ (47,365)	$ (27,199)	$ (20,166)	(1)
Proceeds from sale of assets	13,000	2	12,998	(2)
Business acquisitions, net of cash acquired	(1,300)	(157,097)	155,797	(3)
Intangible asset additions	(4,047)	(2,005)	(2,042)	
Purchases of investment securities	(8,480)	—	(8,480)	(4)
Proceeds from sale of investment securities	8,900	—	8,900	(5)
Net cash used in investing activities	$ (39,292)	$ (186,299)	$ 147,007	

(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 2018, we sold the land and building related to our Dominican Republic manufacturing facilities acquired as part of the 2017 HIS acquisition.

(3) Our business acquisitions will vary from period to period based upon our current growth strategy and our ability to execute on desirable target companies. On February 3, 2017, we acquired HIS for $260 million in cash consideration (net of working capital adjustments), financed with existing cash balances and a three-year interest-only seller note of $75 million and we delivered 3.2 million shares of our common stock to Pfizer.

(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) Net proceeds from the sale of our investment securities increased during the first six months of 2018, as compared to the same period in the prior year. At the end of 2016, we liquidated all of our investment securities and used the proceeds to fund the acquisition of HIS. Accordingly, we did not have an investment balance in 2017 until purchases were made in September of that year.

While we can provide no assurances, we estimate that our capital expenditures in 2018 will be approximately $70 million. We anticipate making additional investments in our manufacturing operations in the United States to support new and existing products and in IT to benefit world-wide integrated operations. We expect to use our cash 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):

	Six months ended June 30,			
	2018	2017	Change	
Financing Cash Flows:				
Proceeds from exercise of stock options	$ 12,536	$ 10,944	$ 1,592	(1)
Proceeds from employee stock purchase plan	—	1,326	(1,326)	(2)
Purchase of treasury stock	(5,469)	(3,739)	(1,730)	(3)
Net cash provided by financing activities	$ 7,067	$ 8,531	$ (1,464)	

(1) 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.
(2) During the third quarter of 2017, we suspended our ESPP.
(3) During the six months ended June 30, 2018, our employees surrendered 23,611 shares of our common stock from vested restricted stock awards as consideration for approximately $5.5 million in minimum statutory withholding obligations paid on their behalf.

In July 2010, our Board of Directors approved a share purchase plan to purchase up to $40.0 million of our common stock. As of June 30, 2018, we had purchased $32.8 million of our common stock pursuant to this plan, leaving a balance of $7.2 million available for future purchases. This plan has no expiration date.

After our acquisition of the HIS business, we continue to maintain a substantial cash position. Cash generated includes stock sales, principally from the exercise of employee stock options. We maintain this position to fund our growth, meet increasing working capital requirements, and fund capital expenditures and to take advantage of acquisition opportunities that may arise.

As of June 30, 2018, we had $138.9 million of cash and cash equivalents held in local currency by our foreign subsidiaries. We expect to permanently reinvest these funds outside of the U.S. and, based on our current plans, we do not presently anticipate a need to repatriate them to fund our U.S. operations.

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

Credit Facility

On November 8, 2017, we entered into a new five-year Senior Secured Revolving Credit Facility ("Credit Facility") with various lenders for $150 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 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. The 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.

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 June 30, 2018.

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

In March 2018, the resolution of a dispute with a product partner resulted in a redefinition of our contractual arrangement and in the rights and remedies determined under such arrangement. As a result we are no longer subject to the future minimum purchase obligations required under this arrangement. Our remaining purchase obligations are immaterial.

Critical Accounting Policies

In our Annual Report on Form 10-K for the year ended December 31, 2017, we identified the critical accounting policies which affect our more significant estimates and assumptions used in preparing our consolidated financial statements. With the exception of the changes to our revenue recognition policies due to the adoption of Accounting Standard Update No. 2014-09, Revenue from Contracts with Customers, described in Note 5 to Part I, Item 1. 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 HIS 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; the impact of our acquisition of the HIS 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, 2017, 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:

- 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; and
- the availability of patent protection and the cost of enforcing and of defending patent claims.

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risk stemming from changes in interest rates if we were to incur borrowings under our Credit Facility and foreign currency exchange rates.

Foreign Exchange Risk

We have foreign currency exchange risk related to foreign-denominated cash, accounts receivable and accounts payable and accrued liabilities.

In our European operations, our net Euro asset position at June 30, 2018 was approximately €64.8 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 June 30, 2018 spot rate would impact our consolidated amounts on these balance sheet items by approximately $7.6 million, or 3.0% 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.

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 June 30, 2018 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

Beginning in November 2016, purported class actions were filed in the U.S. District Court for the Northern District of Illinois against Pfizer, Inc. subsidiaries, Hospira, Inc., Hospira Worldwide, Inc. and certain other defendants relating to the intravenous saline solutions part of the HIS business. Plaintiffs seek to represent classes consisting of all persons and entities in the U.S. who directly purchased intravenous saline solution sold by any of the defendants from January 1, 2013 until the time the defendants' allegedly unlawful conduct ceases. Plaintiffs allege that the defendants' conduct restricts output and artificially fixes, raises, maintains and/or stabilizes the prices of intravenous saline solution sold throughout the U.S. in violation of federal antitrust laws. Plaintiffs seek treble damages (for themselves and on behalf of the putative classes) and an injunction against defendants for alleged price overcharges for intravenous saline solution in the U.S. since January 1, 2013. On July 5, 2018, the District Court granted defendants' motion to dismiss the operative complaint, but is allowing plaintiff to file a second amended complaint. On February 3, 2017, we completed the acquisition of the HIS business from Pfizer. This litigation is the subject of a claim for indemnification against us by Pfizer and a cross-claim for indemnification against Pfizer by us under the HIS stock and asset purchase agreement ("SAPA").

In addition, in August 2015, the New York Attorney General issued a subpoena to Hospira, Inc. requesting that the company provide information regarding certain business practices in the intravenous solutions part of the HIS business. Separately, in April 2017, we received a grand jury subpoena issued by the United States District Court for the Eastern District of Pennsylvania, in connection with an investigation by the U.S. Department of Justice, Antitrust Division. The subpoena calls for production of documents related to the manufacturing, selling, pricing and shortages of intravenous solutions, including saline, as well as communications among market participants regarding these issues. The Department of Justice investigation is the subject of cross-claims for indemnification by both us and Pfizer under the SAPA. We have coordinated with Pfizer to produce records to the New York Attorney General and the Department of Justice.

In April, 2018, the U.S. Department of Justice issued a HIPAA subpoena to Hospira, Inc., requesting production of documents and records regarding the manufacturing, production, testing, quality and validation of the Sapphire™ infusion pumps, sets and related accessories distributed by the Company. We are coordinating with Pfizer to produce the requested records to the Department of Justice.

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

Item 1A. Risk Factors

In evaluating an investment in our common stock, investors should consider carefully, among other things, the risk factors previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K filed with the SEC for the year ended December 31, 2017, as well as the information contained in this Quarterly Report and our other reports and registration statements filed with the SEC.

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 second quarter of 2018:

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]
04/01/2018 — 04/30/2018	—	$ —	—	$ 7,169,000
05/01/2018 — 05/31/2018	—	$ —	—	$ 7,169,000
06/01/2018 — 06/30/2018	—	$ —	—	$ 7,169,000
Second quarter of 2018 total	—	$ —	—	$ 7,169,000

(1) Our common stock purchase plan, which authorized the repurchase of up to $40.0 million of our common stock, was authorized by our Board of Directors and publicly announced on July 19, 2010. 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)

/s/ Scott E. Lamb — Date: August 9, 2018

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

Exhibit Index

Exhibit 31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 32.1	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 101.INS	XBRL Instance Document
Exhibit 101.SCH	XBRL Taxonomy Extension Schema Document
Exhibit 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
Exhibit 101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
Exhibit 101.LAB	XBRL Taxonomy Extension Label Linkbase Document
Exhibit 101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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.

Date: August 9, 2018

/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, Scott E. Lamb, 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.

Date: August 9, 2018

/s/ Scott E. Lamb

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 June 30, 2018 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.

August 9, 2018

/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 June 30, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Scott E. Lamb, 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.

August 9, 2018

/s/ Scott E. Lamb

Scott E. Lamb