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

FORM 10-Q

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

For the quarterly period ended: March 31, 2020
or

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

For the transition period from: to

Commission File No.: 001-34634

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

Delaware	**33-0022692**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
951 Calle Amanecer , San Clemente , California	**92673**
(Address of principal executive offices)	(Zip Code)

(949) 366-2183
(Registrant's telephone number including area code)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No o

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

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

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

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

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

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

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

Class	**Outstanding at April 30, 2020**
Common	20,832,404

ICU MEDICAL, INC. AND SUBSIDIARIES
Form 10-Q
March 31, 2020

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

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

	March 31, 2020	December 31, 2019
	(Unaudited)	(1)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 419,557	$ 268,670
Short-term investment securities	20,115	23,967
TOTAL CASH, CASH EQUIVALENTS AND INVESTMENT SECURITIES	439,672	292,637
Accounts receivable, net of allowance for doubtful accounts of $19,856 at March 31, 2020 and $20,219 at December 31, 2019	198,158	202,219
Inventories	311,604	337,640
Prepaid income tax	18,140	15,720
Prepaid expenses and other current assets	34,601	33,981
TOTAL CURRENT ASSETS	1,002,175	882,197
PROPERTY AND EQUIPMENT, net	455,624	456,085
OPERATING LEASE RIGHT-OF-USE ASSETS	50,430	34,465
GOODWILL	30,767	31,245
INTANGIBLE ASSETS, net	206,837	211,408
DEFERRED INCOME TAXES	21,904	27,998
OTHER ASSETS	49,242	48,984
TOTAL ASSETS	$ 1,816,979	$ 1,692,382
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 86,348	$ 128,629
Accrued liabilities	120,009	117,776
Short-term debt	150,000	—
Income tax liability	944	2,063
TOTAL CURRENT LIABILITIES	357,301	248,468
CONTINGENT EARN-OUT LIABILITY	17,300	17,300
OTHER LONG-TERM LIABILITIES	50,041	32,820
DEFERRED INCOME TAXES	1,985	2,091
INCOME TAX LIABILITY	14,459	14,459
COMMITMENTS AND CONTINGENCIES (Note 18)	—	—
STOCKHOLDERS' EQUITY:		
Convertible preferred stock, $1.00 par value Authorized—500 shares; Issued and outstanding— none	—	—
Common stock, $0.10 par value — Authorized, 80,000 shares; Issued — 20,833 shares at March 31, 2020 and 20,743 shares at December 31, 2019 and outstanding — 20,825 shares at March 31, 2020 and 20,742 shares at December 31, 2019	2,083	2,074
Additional paid-in capital	665,679	668,947
Treasury stock, at cost	(1,573)	(157)
Retained earnings	738,616	721,782
Accumulated other comprehensive loss	(28,912)	(15,402)
TOTAL STOCKHOLDERS' EQUITY	1,375,893	1,377,244
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,816,979	$ 1,692,382

(1) December 31, 2019 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 March 31,	
	2020	**2019**
TOTAL REVENUES	$ 328,607	$ 330,932
COST OF GOODS SOLD	207,192	195,629
GROSS PROFIT	121,415	135,303
OPERATING EXPENSES:		
Selling, general and administrative	72,305	72,633
Research and development	10,746	12,823
Restructuring, strategic transaction and integration	12,307	24,392
Change in fair value of contingent earn-out	—	(7,700)
Contract settlement	—	2,783
TOTAL OPERATING EXPENSES	95,358	104,931
INCOME FROM OPERATIONS	26,057	30,372
INTEREST EXPENSE	(196)	(133)
OTHER (EXPENSE) INCOME, net	(5,480)	3,191
INCOME BEFORE INCOME TAXES	20,381	33,430
PROVISION FOR INCOME TAXES	(3,547)	(2,432)
NET INCOME	$ 16,834	$ 30,998
NET INCOME PER SHARE		
Basic	$ 0.81	$ 1.51
Diluted	$ 0.78	$ 1.44
WEIGHTED AVERAGE NUMBER OF SHARES		
Basic	20,780	20,527
Diluted	21,507	21,551

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

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

	Three months ended March 31,	
	2020	**2019**
NET INCOME	$ 16,834	$ 30,998
Other comprehensive income (loss), net of tax:		
Cash flow hedge adjustments, net of taxes of $932 and $205 for the three months ended March 31, 2020 and 2019, respectively	(2,952)	650
Foreign currency translation adjustment, net of taxes of $0 for all periods	(10,477)	(1,592)
Other adjustments, net of taxes of $0 for all periods	(81)	6
Other comprehensive loss, net of taxes	(13,510)	(936)
TOTAL COMPREHENSIVE INCOME	$ 3,324	$ 30,062

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

ICU MEDICAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (Unaudited)
(Amounts in thousands)

	Common Stock					Accumulated Other	
	Shares	Amount	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Comprehensive Loss	Total
Balance, January 1, 2020	**20,742**	**$ 2,074**	**$ 668,947**	**$ (157)**	**$ 721,782**	**$ (15,402)**	**$1,377,244**
Issuance of restricted stock and exercise of stock options	155	9	(10,207)	10,758	—	—	560
Tax withholding payments related to net share settlement of equity awards	(64)	—	—	(12,174)	—	—	(12,174)
Stock compensation	—	—	6,939	—	—	—	6,939
Other comprehensive loss, net of tax	—	—	—	—	—	(13,510)	(13,510)
Net income	—	—	—	—	16,834	—	16,834
Balance, March 31, 2020	**20,833**	**$ 2,083**	**$ 665,679**	**$ (1,573)**	**$ 738,616**	**$ (28,912)**	**$1,375,893**

	Common Stock					Accumulated Other	
	Shares	Amount	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Comprehensive Loss	Total
Balance, January 1, 2019	**20,492**	**$ 2,049**	**$ 657,899**	**$ (95)**	**$ 620,747**	**$ (16,945)**	**$1,263,655**
Issuance of restricted stock and exercise of stock options	254	18	(4,289)	5,196	—	—	925
Tax withholding payments related to net share settlement of equity awards	(78)	—	—	(18,157)	—	—	(18,157)
Stock compensation	—	—	6,209	—	—	—	6,209
Other comprehensive loss, net of tax	—	—	—	—	—	(936)	(936)
Net income	—	—	—	—	30,998	—	30,998
Balance, March 31, 2019	**20,668**	**$ 2,067**	**$ 659,819**	**$ (13,056)**	**$ 651,745**	**$ (17,881)**	**$1,282,694**

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

	Three months ended March 31,	
	2020	**2019**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 16,834	$ 30,998
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	20,957	19,074
Amortization of right-of-use assets	2,305	—
Provision for doubtful accounts	5	2,096
Provision for warranty and returns	(821)	2,692
Stock compensation	6,939	6,209
Loss on disposal of property and equipment and other assets	562	12,682
Bond premium amortization	34	28
Debt issuance costs amortization	72	72
Change in fair value of contingent earn-out	—	(7,700)
Product-related charges	2,626	—
Usage of spare parts	4,900	6,362
Other	876	(1,991)
Changes in operating assets and liabilities:		
Accounts receivable	899	(49,534)
Inventories	19,372	(11,968)
Prepaid expenses and other assets	2,634	10,319
Other assets	(6,402)	(7,542)
Accounts payable	(35,063)	3,075
Accrued liabilities	465	(34,814)
Income taxes, including excess tax benefits and deferred income taxes	2,325	(1,068)
Net cash provided by (used in) operating activities	39,519	(21,010)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(25,463)	(28,671)
Proceeds from sale of asset	131	16
Intangible asset additions	(1,958)	(1,949)
Purchases of investment securities	(7,082)	(4,409)
Proceeds from sale of investment securities	10,900	24,500
Net cash used in investing activities	(23,472)	(10,513)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from short term debt	150,000	—
Proceeds from exercise of stock options	560	925
Tax withholding payments related to net share settlement of equity awards	(12,174)	(18,157)
Net cash provided by (used in) financing activities	138,386	(17,232)
Effect of exchange rate changes on cash	(3,546)	18
NET INCREASE (DECREASE) CASH AND CASH EQUIVALENTS	150,887	(48,737)
CASH AND CASH EQUIVALENTS, beginning of period	268,670	344,781
CASH AND CASH EQUIVALENTS, end of period	$ 419,557	$ 296,044

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

ICU MEDICAL, INC. AND SUBSIDIARIES

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

	Three months ended March 31,	
	2020	**2019**
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING ACTIVITIES:		
Accounts payable for property and equipment	$ 7,112	$ 13,131

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

Note 1: Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S.") and pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and reflect all adjustments, consisting of only normal recurring adjustments, which are, in the opinion of management, necessary for a fair statement of the consolidated results for the interim periods presented. Results for the interim period are not necessarily indicative of results for the full year. Certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. The condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Annual Report on Form 10-K of ICU Medical, Inc., ("ICU") a Delaware corporation, filed with the SEC for the year ended December 31, 2019.

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

Certain reclassifications have been made to prior year financial statements to conform to classifications used in the current year. These reclassifications had no impact on net income, stockholders' equity or cash flows as previously reported. We reclassified the usage of spare parts to separately state the amounts as an adjustment to reconcile net income to net cash provided by (used in) operating activities. The usage of spare parts was reported in the "Other" line item in the previously reported operating cash flows.

Note 2: New Accounting Pronouncements

Recently Adopted Accounting Standards

In August 2018, the FASB issued ASU No. 2018-15, Intangibles-Goodwill and Other-Internal-Use Software (Topic 350): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. The amendments in this update align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software and hosting arrangements that include an internal use software license. Costs to develop or obtain internal-use software that cannot be capitalized under subtopic 350-40, such as training costs and certain data conversion costs, also cannot be capitalized for a hosting arrangement that is a service contract. Therefore, an entity in a hosting arrangement that is a service contract determines which project stage (that is, preliminary project stage, application development stage, or post-implementation stage) an implementation activity relates to. Costs for implementation activities in the application development stage are capitalized depending on the nature of the costs, while costs incurred during the preliminary project and post-implementation stages are expensed as the activities are performed. The amendments in this update require the entity to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. The amendments in this update are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The amendments in this update should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. We adopted this ASU effective January 1, 2020. This ASU did not have a material impact on our condensed consolidated financial statements or related disclosures.

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement. The amendments in this update modify the disclosure requirements in Topic 820. The amendments remove from disclosure: the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy; the policy for timing of transfers between levels; and the valuation processes for Level 3 fair value measurements. The amendments also made the following disclosure modifications: for investments in certain entities that calculate net asset value, an entity is required to disclose the timing of liquidation of an investee's assets and the date when restrictions from redemption might lapse only if the investee has communicated the timing to the entity or announced the timing publicly; and the amendments clarify that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date. The amendments also added the following disclosure requirements: the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period; and the range and weighted average of significant

unobservable inputs used to develop Level 3 fair value measurements. For certain unobservable inputs, an entity may disclose other quantitative information (such as the median or arithmetic average) in lieu of the weighted average if the entity determines that other quantitative information would be a more reasonable and rational method to reflect the distribution of unobservable inputs used to develop Level 3 fair value measurements. The amendments in ASU 2018-02 are effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. We adopted this ASU effective January 1, 2020. This ASU did not have a material impact on our condensed consolidated financial statements or related 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. In April 2019, the FASB issued ASU No. 2019-04 - Codification Improvements to Topic 326, Financial Instruments - Credit Losses and in May 2019, the FASB issued ASU No. 2019-05, Financial Instruments-Credit Losses to Topic 326, Financial Instruments - Targeted Transition Relief. ASU 2019-04 clarifies and corrects certain areas of the Codification and ASU 2019-05 provides entities with an option to irrevocably elect the fair value option in Subtopic 825-10, Financial Instruments—Overall, applied on an instrument-by-instrument basis for eligible instruments, upon adoption of Topic 326. The amendments in these updates 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 adopted this ASU effective January 1, 2020. This ASU did not have a material impact on our condensed consolidated financial statements or related disclosures.

Recently Issued Accounting Standards

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

Note 3: Restructuring, Strategic Transaction and Integration

Restructuring, strategic transaction and integration expenses were $12.3 million and $24.4 million for the three months ended March 31, 2020 and 2019, respectively.

Restructuring

During the three months ended March 31, 2020 and 2019, restructuring charges were $7.2 million and $0.8 million, respectively. Restructuring charges for the three months ended March 31, 2020, were primarily related to severance and costs related to office and other facility closures.

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 March 31, 2020 (in thousands):

	Accrued Balance January 1, 2020	Charges Incurred	Payments	Accrued Balance March 31, 2020
Severance pay and benefits	$ 3,878	$ 3,111	$ (2,620)	$ 4,369
Employment agreement buyout	460	—	(186)	274
Facility closure expenses	1,211	4,062	(3,501)	1,772
	$ 5,549	$ 7,173	$ (6,307)	$ 6,415

Strategic transaction and integration expenses

We incurred and expensed $5.1 million and $23.6 million in strategic transaction and integration expenses during the three months ended March 31, 2020 and 2019, respectively. The strategic transaction and integration expenses during the three months ended March 31, 2020 and 2019, were primarily related to the integration of the Hospira Infusion Systems ("HIS") business acquired in 2017 from Pfizer. For the three months ended March 31, 2020, the expenses included the migration of IT systems at our Austin facility. The strategic transaction and integration expenses during the three months ended March 31, 2019, were primarily related to our final Pfizer separation costs and clean-up, which included a $12.7 million non-cash write-off of related assets.

Note 4: Revenue

Our primary product lines are Infusion Consumables, Infusion Systems, IV Solutions and Critical Care. The vast majority of our sales of these products are made on a stand-alone basis to hospitals and distributors. Revenue is typically recognized upon transfer of control of the products, which we deem to be at point of shipment.

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

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 at that time and our historical experience. We also provide for extended service-type warranties, which we consider to be separate performance obligations. We allocate a portion of the transaction price to the extended service-type warranty based on its estimated relative selling price, and recognize revenue over the period the warranty service is provided.

Revenue disaggregated

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

	For the three months ended March 31,	
Geography	**2020**	**2019**
Europe, the Middle East and Africa	$ 37,928	$ 32,378
Other Foreign	60,521	51,361
Total Foreign	98,449	83,739
United States	230,158	247,193
Total Revenues	$ 328,607	$ 330,932

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

	For the three months ended March 31,	
Product line	**2020**	**2019**
Infusion Consumables	$ 123,507	$ 120,580
Infusion Systems	88,380	84,282
IV Solutions	104,291	113,182
Critical Care	12,429	12,888
Total Revenues	$ 328,607	$ 330,932

Contract balances

The following table presents our changes in the contract balances for the three months ended March 31, 2020 and 2019 (in thousands):

	Contract Liabilities
Beginning balance, January 1, 2020	$ (4,855)
Equipment revenue recognized	1,802
Equipment revenue deferred due to implementation	(3,990)
Software revenue recognized	1,235
Software revenue deferred due to implementation	(2,664)
Ending balance, March 31, 2020	$ (8,472)
Beginning balance, January 1, 2019	$ (4,282)
Equipment revenue recognized	448
Equipment revenue deferred due to implementation	(1,343)
Software revenue recognized	345
Software revenue deferred due to implementation	(1,593)
Ending balance, March 31, 2019	$ (6,425)

As of March 31, 2020, revenue from remaining performance obligations related to implementation of software and equipment is $6.8 million. We expect to recognize substantially all of this revenue within the next three to six months dependent on implementation restriction due to COVID-19. Revenue from remaining performance obligations related to annual software licenses is $1.6 million. We expect to recognize substantially all of this revenue over the next twelve months.

Note 5: Leases

Leases

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

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

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

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

	For the three months ended March 31,	
	2020	**2019**
Operating lease cost	$ 2,791	$ 2,430
Finance lease cost	29	—
Short-term lease cost	54	96
Total lease cost	$ 2,874	$ 2,526

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

	For the three months ended March 31,	
	2020	**2019**
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 2,457	$ 2,219
Operating cash flows from finance leases	$ 29	$ —
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	$ 19,094	$ 98
Finance leases	$ 800	$ —

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

	As of March 31, 2020	As of December 31, 2019
Operating leases		
Operating lease right-of-use assets	$ 50,430	$ 34,465
Accrued liabilities	$ 7,544	$ 7,362
Other long-term liabilities	45,166	28,896
Total operating lease liabilities	$ 52,710	$ 36,258
Weighted Average Remaining Lease Term		
Operating leases	7.3 years	6.0 years
Weighted Average Discount Rate		
Operating leases	5.06%	5.57%

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

	As of March 31, 2020
Financing leases	
Financing lease right-of-use assets	$ 789
Accrued liabilities	$ 188
Other long-term liabilities	601
Total financing lease liabilities	$ 789
Weighted Average Remaining Lease Term	
Financing leases	4.0 years
Weighted Average Discount Rate	
Financing leases	4.32%

As of March 31, 2020, the maturities of our operating and financing lease liabilities for each of the next five years is approximately (in thousands):

	Operating Leases	Finance Leases
Remainder of 2020	$ 7,195	$ 174
2021	10,021	218
2022	9,309	218
2023	8,494	218
2024	8,094	25
2025	4,816	—
Thereafter	14,906	—
Total Lease Payments	62,835	853
Less imputed interest	(10,125)	(64)
Total	$ 52,710	$ 789

Note 6: Net Income Per Share

Basic earnings per share is computed by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net income by the weighted-average number of common shares outstanding during the period plus dilutive securities. Dilutive securities include outstanding common stock options and unvested restricted stock units, less the number of shares that could have been purchased with the proceeds from the exercise of the options, using the treasury stock method. Options and restricted stock units that are anti-dilutive are not included in the treasury stock method calculation. There were 15,333 and 9,998 anti-dilutive securities for the three months ended March 31, 2020 and 2019, respectively.

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

	Three months ended March 31,	
	2020	2019
Net income	$ 16,834	$ 30,998
Weighted-average number of common shares outstanding (for basic calculation)	20,780	20,527
Dilutive securities	727	1,024
Weighted-average common and common equivalent shares outstanding (for diluted calculation)	21,507	21,551
EPS — basic	$ 0.81	$ 1.51
EPS — diluted	$ 0.78	$ 1.44

Note 7: Derivatives and Hedging Activities

Hedge Accounting and Hedging Program

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

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

In March 2020, we entered into a one-year cross-currency par forward contract that extends our current hedge of a portion of our Mexico forecasted expenses denominated in Pesos ("MXN"). The total notional amount of this outstanding derivative as of March 31, 2020 was approximately 473.2 million MXN. The term of the one-year contract is November 3, 2020 to December 1, 2021. The derivative instrument matures in equal monthly amounts at a fixed forward rate of 24.26 MXN/USD.

In November 2018, we entered into a one-year cross-currency par forward contract that hedges of a portion of our Mexico forecasted expenses denominated in MXN. The total notional amount of this outstanding derivative as of March 31, 2020 was approximately 265.3 million MXN. The term of the one-year hedge is November 1, 2019 to November 3, 2020. The derivative instrument matures in equal monthly amounts at a fixed forward rate of 22.109 MXN/USD.

The following table presents the fair values of our derivative instruments included within the Condensed Consolidated Balance Sheets as of March 31, 2020 and December 31, 2019 (in thousands):

	Derivatives		
	Condensed Consolidated Balance Sheet Location	March 31, 2020	December 31, 2019
Derivatives designated as cash flow hedging instruments			
Foreign exchange forward contract:			
	Prepaid expenses and other current assets	$ —	$ 2,366
	Accrued liabilities	(1,006)	—
	Other long-term liabilities	(512)	—
Total derivatives designated as cash flow hedging instruments		$ (1,518)	$ 2,366

The following table presents the amounts affecting the Condensed Consolidated Statements of Operations for the three months ended March 31, 2020 and 2019 (in thousands):

	Line Item in the Condensed Consolidated Statements of Operations	Three months ended March 31,	
		2020	2019
Derivatives designated as cash flow hedging instruments			
Foreign exchange forward contracts	Cost of goods sold	$ 692	$ 155

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

	Amount of (Loss) Gain Recognized in Other Comprehensive Income on Derivatives		Amount of Gain Reclassified From Accumulated Other Comprehensive Income into Income		
	Three months ended March 31,			Three months ended March 31,	
	2020	2019	Location of Gain Reclassified From Accumulated Other Comprehensive Income into Income	2020	2019
Derivatives designated as cash flow hedges:					
Foreign exchange forward contract	$ (3,192)	$ 1,010	Cost of goods sold	$ 692	$ 155
Total derivatives designated as cash flow hedging instruments	$ (3,192)	$ 1,010		$ 692	$ 155

As of March 31, 2020, we expect approximately $1.0 million of the deferred losses on the outstanding derivatives in accumulated other comprehensive income to be reclassified to net income during the next twelve months concurrent with the underlying hedged transactions also being reported in net income.

Note 8: Fair Value Measurement

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

- Level 1: quoted prices in active markets for identical assets or liabilities;
- Level 2: inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; or

- Level 3: unobservable inputs that are supported by little or no market activity and that are significant to the fair values of the assets or liabilities.

Earn-out Liability

In 2017, we recognized an earn-out liability upon the acquisition of HIS from Pfizer. Pfizer was entitled up to $225 million in cash if certain performance targets for the combined company for the three years ending December 31, 2019 were 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 included 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. The initial value assigned to the contingent consideration was a result of forecasted product demand of our HIS business. At each reporting date subsequent to the acquisition we remeasured the earn-out using the same methodology above and recognized any changes in value. As of December 31, 2019, it was determined that we did not meet the necessary performance targets that would require payout of any of the HIS earn-out liability.

In the fourth quarter of 2019, we recognized an earn-out liability related to the acquisition of Pursuit Vascular, Inc. ("Pursuit"). Pursuit's former equity holders are potentially entitled up to $50.0 million in additional cash consideration contingent upon the achievement of certain sales and gross profit targets for specific customers. The earn-out paid will be calculated as a percentage of gross profit achieved during the earn-out period against a pre-determined target gross profit, not to exceed $50.0 million. We used a Monte Carlo simulation model to determine the fair value of the earn-out liability. The Monte Carlo simulation model utilizes multiple input variables to determine the value of the earn-out liability including historical volatility, a risk free interest rate, counter party credit risk and projected future gross profit, see below simulation input table related to Pursuit. The historical volatility was based on the median of ICU and a certain peer group. The risk-free interest rate is equal to the yield, as of the valuation date, of the zero-coupon U.S. Treasury bill that is commensurate with the term of the earn-out. The counter party credit risk is based on a synthetic credit rating of B1. If the probabilities in the model significantly change from what we initially and subsequently anticipate, 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 tables provide a reconciliation of the Level 3 earn-out liabilities measured at estimated fair value (in thousands):

	Pursuit Earn-out Liability
Accrued balance, January 1, 2020	$ 17,300
Change in fair value of earn-out (included in income from operations as a separate line item)	—
Accrued balance, March 31, 2020	$ 17,300

	HIS Earn-out Liability
Accrued balance, January 1, 2019	$ 47,400
Change in fair value of earn-out (included in income from operations as a separate line item)	(7,700)
Accrued balance, March 31, 2019	$ 39,700

The fair value of the earn-out was the same at March 31, 2020 as the fair value calculated at December 31, 2019 as the underlying target forecast did not change.

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

Pursuit Earn-out

Simulation Input	As of March 31, 2020	At Acquisition November 2, 2019
Revenue/Gross Profit Volatility	20.00%	20.00%
Discount Rate	15.00%	15.00%
Risk Free Rate	1.55%	1.55%
Counter Party Risk	6.00%	6.00%

HIS Earn-out

Simulation Input	As of March 31, 2019	As of December 31, 2018
Adjusted EBITDA Volatility	30.00%	30.00%
WACC	8.25%	8.25%
20-year risk free rate	2.63%	2.87%
Market price of risk	5.47%	5.24%
Cost of debt	4.35%	5.25%

Investments and Foreign Currency Contracts

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

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

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

	Fair value measurements at March 31, 2020			
	Total carrying value	Quoted prices in active markets for identical assets (level 1)	Significant other observable inputs (level 2)	Significant unobservable inputs (level 3)
Assets:				
Available for sale securities:				
Short-term	$ 20,115	$ —	$ 20,115	$ —
Total Assets	$ 20,115	$ —	$ 20,115	$ —
Liabilities:				
Earn-out liability	$ 17,300	$ —	$ —	$ 17,300
Foreign exchange forwards:				
Accrued liabilities	1,006	—	1,006	—
Other long-term liabilities	512	—	512	—
Total Liabilities	$ 18,818	$ —	$ 1,518	$ 17,300

	Fair value measurements at December 31, 2019			
	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	$ 23,967	$ —	$ 23,967	$ —
Foreign exchange forwards:				
Prepaid expenses and other current assets	2,366	—	2,366	—
Total Assets	$ 26,333	$ —	$ 26,333	$ —
Liabilities:				
Earn-out liability	$ 17,300	$ —	$ —	$ 17,300
Total Liabilities	$ 17,300	$ —	$ —	$ 17,300

Note 9: Investment Securities

Our investment securities currently consist of short-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. 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 operations. There have been no realized gains or losses on their disposal. Realized gains and losses are accounted for on the specific identification method. The scheduled maturities of the debt securities are between 2020 and 2021. All short-term investment securities are callable within one year.

Our short investment securities consisted of the following (in thousands):

	As of March 31, 2020		
	Amortized Cost	Unrealized Holding Gains (Losses)	Fair Value
Short-term corporate bonds	$ 20,115	$ —	$ 20,115

	As of December 31, 2019		
	Amortized Cost	Unrealized Holding Gains (Losses)	Fair Value
Short-term corporate bonds	$ 23,967	$ —	$ 23,967

Note 10: Prepaid Expenses, Other Current Assets

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

	March 31, 2020	December 31, 2019
Other prepaid expenses and receivables	15,407	13,778
Deferred costs	6,493	3,332
Prepaid insurance and property taxes	4,548	5,450
VAT/GST receivable	3,913	4,422
Deferred tax charge	1,266	1,266
Deposits	1,316	1,375
Other	1,658	4,358
	$ 34,601	$ 33,981

Note 11: Inventories

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

	March 31, 2020	December 31, 2019
Raw materials	$ 121,674	$ 119,709
Work in process	36,291	39,515
Finished goods	153,639	178,416
Total inventories	$ 311,604	$ 337,640

Note 12: Property and Equipment

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

	March 31, 2020	December 31, 2019
Machinery and equipment	$ 241,059	$ 219,057
Land, building and building improvements	233,548	230,454
Molds	60,312	60,155
Computer equipment and software	93,475	83,217
Furniture and fixtures	7,416	7,498
Instruments placed with customers[(1)]	74,292	74,434
Construction in progress	77,483	101,425
Total property and equipment, cost	787,585	776,240
Accumulated depreciation	(331,961)	(320,155)
Property and equipment, net	$ 455,624	$ 456,085

[(1)]Instruments placed with customers consist of drug-delivery and monitoring systems placed with customers.

Depreciation expense was $15.2 million and $15.1 million for the three months ended March 31, 2020 and 2019, respectively.

Note 13: Goodwill and Intangible Assets, Net

Goodwill

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

	Total
Balance as of January 1, 2020	$ 31,245
Currency translation	(478)
Balance as of March 31, 2020	$ 30,767

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	March 31, 2020		
		Cost	Accumulated Amortization	Net
Patents	10	$ 22,854	$ 13,886	$ 8,968
Customer contracts	12	10,093	5,584	4,509
Non-contractual customer relationships	9	56,258	21,102	35,156
Trademarks	4	425	425	—
Trade name	15	18,237	2,555	15,682
Developed technology	13	152,893	27,403	125,490
Non-compete	3	2,500	347	2,153
Total amortized intangible assets		$ 263,260	$ 71,302	$ 191,958
Internally developed software*		$ 14,879		$ 14,879
Total intangible assets		$ 278,139	$ 71,302	$ 206,837

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

	Weighted Average Amortization Life in Years	December 31, 2019		
		Cost	Accumulated Amortization	Net
Patents	10	$ 22,322	$ 13,519	$ 8,803
Customer contracts	12	10,122	5,506	4,616
Non-contractual customer relationships	9	57,296	19,787	37,509
Trademarks	4	425	425	—
Trade name	15	18,256	2,254	16,002
Developed technology	13	152,354	24,228	128,126
Non-compete	3	2,500	139	2,361
Total amortized intangible assets		$ 263,275	$ 65,858	$ 197,417
Internally developed software*		$ 13,991		$ 13,991
Total intangible assets		$ 277,266	$ 65,858	$ 211,408

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

Intangible assets with definite lives are amortized on a straight-line basis over their estimated useful lives. During the three months ended March 31, 2020 and 2019, intangible asset amortization expense was $5.8 million and $4.0 million, respectively.

As of March 31, 2020 estimated annual amortization for our intangible assets for each of the next five years is approximately (in thousands):

Remainder of 2020	$ 17,424
2021	22,997
2022	22,355
2023	21,512
2024	21,422
2025	15,629
Thereafter	70,619
Total	$ 191,958

Note 14: Accrued Liabilities and Other Long-Term Liabilities

Accrued liabilities consist of the following (in thousands):

	March 31, 2020	December 31, 2019
Salaries and benefits	$ 27,616	$ 21,116
Incentive compensation	8,638	15,221
Accrued supply chain restructuring costs	22,998	23,119
Operating lease liability-ST	7,544	7,362
Accrued product field action	547	2,096
Accrued sales taxes	3,205	2,615
Restructuring accrual	6,935	5,459
Deferred revenue	8,290	4,761
Accrued other taxes	1,154	4,054
Accrued professional fees	4,745	4,782
Legal accrual	970	826
Distribution fees	3,405	3,942
Warranties and returns	716	782
Accrued freight	12,623	11,238
Contract liabilities-ST	1,485	1,935
Contract settlement	1,250	1,667
Other	7,888	6,801
	$ 120,009	$ 117,776

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

	March 31, 2020	December 31, 2019
Operating lease liability-LT	$ 45,166	$ 28,896
Benefits	1,148	1,131
Accrued rent	1,460	1,642
Contract liabilities-LT	438	472
Financing lease liability-LT	601	—
Deferred revenue	182	94
Other	1,046	585
	$ 50,041	$ 32,820

Note 15: Income Taxes

Income taxes were accrued at an estimated effective tax rate of 17% and 7% for the three months ended March 31, 2020 and 2019, respectively.

The effective tax rate for the three months ended March 31, 2020 differs from the federal statutory rate of 21% principally because of the effect of the mix of U.S. and foreign incomes, state income taxes, global intangible low-taxed income ("GILTI"), foreign-derived intangible income ("FDII") and tax credits.

The effective tax rate for the three months ended March 31, 2019 differs from the federal statutory rate of 21% principally because of the effect of the mix of U.S. and foreign incomes, state income taxes, GILTI and tax credits. The effective tax rate during the three months ended March 31, 2019 included a discrete tax benefit of $5.6 million related to the excess tax benefits recognized on stock option exercises and the vesting of restricted stock units during the period. In addition, the effective tax rate during the three months ended March 31, 2019 included a discrete tax provision of $1.8 million as a result of a revaluation of the contingent consideration.

Note 16: Long-Term Obligations

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

On November 8, 2017, we entered into a Credit Facility with various lenders for $150.0 million, with Wells Fargo Bank, N.A. as the administrative agent, swingline lender and issuing lender. During March 2020, as a result of market uncertainty caused by the novel coronavirus ("COVID-19"), we preemptively borrowed $150.0 million on our Credit Facility as a conservative measure to manage any potential short-term liquidity risk. We plan to hold the proceeds of these borrowings as cash while the COVID-19 situation and market conditions remain uncertain.

As of March 31, 2020, we had $150.0 million in borrowings and no availability under the Credit Facility. Principal payments on the revolving Credit Facility are made at our discretion with the unpaid amount due at maturity. The Credit Facility matures on November 8, 2022. Interest on borrowings under the Credit Facility, at our option, is based on the Base Rate plus applicable margin or the London Interbank Offered Rate ("LIBOR") plus applicable margin, see further details in Part II, Item 8, of our 2019 Annual Report on Form 10-K.

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 March 31, 2020.

Note 17: Stockholders' Equity

Treasury Stock

In August 2019, our Board of Directors approved a new share purchase plan to purchase up to $100.0 million of our common stock. This plan replaced our existing plan and has no expiration date. During the three months ended March 31, 2020, we did not purchase any shares of our common stock under our stock purchase plans. As of March 31, 2020, all of the $100.0 million available for purchase was remaining under the plan. We are currently limited on share purchases in accordance with the terms and conditions of our Credit Facility (see Note 16: Long-Term Obligations).

For the three months ended March 31, 2020, we withheld 63,511 shares of our common stock from employee vested restricted stock units in consideration for $12.2 million in payments made on the employee's behalf for their minimum statutory income tax withholding obligations. For the three months ended March 31, 2019, we withheld 77,642 shares of our common stock from employee vested restricted stock units in consideration for $18.2 million in payments made on the employee's behalf for their minimum statutory income tax withholding obligations. Treasury stock is used to issue shares for stock option exercises, restricted stock grants and employee stock purchase plan stock purchases.

Accumulated Other Comprehensive (Loss) Income

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

	Foreign Currency Translation Adjustments	Unrealized Gains on Cash Flow Hedges	Other Adjustments	Total
Balance as of January 1, 2020	$ (17,310)	$ 1,880	$ 28	$ (15,402)
Other comprehensive loss before reclassifications	(10,477)	(2,426)	(81)	(12,984)
Amounts reclassified from AOCI	—	(526)	—	(526)
Other comprehensive loss	(10,477)	(2,952)	(81)	(13,510)
Balance as of March 31, 2020	$ (27,787)	$ (1,072)	$ (53)	$ (28,912)

	Foreign Currency Translation Adjustments	Unrealized Gains on Cash Flow Hedges	Other Adjustments	Total
Balance as of January 1, 2019	$ (17,682)	$ 638	$ 99	$ (16,945)
Other comprehensive (loss) income before reclassifications	(1,592)	768	6	(818)
Amounts reclassified from AOCI	—	(118)	—	(118)
Other comprehensive (loss) income	(1,592)	650	6	(936)
Balance as of March 31, 2019	$ (19,274)	$ 1,288	$ 105	$ (17,881)

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, 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 U.S. manufacturer defendants conspired together to restrict output and artificially fix, raise, maintain and/or stabilize 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 for failing to state a

valid antitrust claim, but allowed the plaintiffs to file a second amended complaint. On September 6, 2018, plaintiffs filed a second amended complaint adding new allegations in support of their conspiracy claims and adding ICU as a defendant. All defendants filed a motion to dismiss this second amended complaint and on April 3, 2020, the District Court granted Defendants' motion to dismiss the second amended complaint. The District Court concluded that it would be futile to permit plaintiffs to amend their complaint again, and dismissed the case with prejudice. The plaintiffs may file an appeal or other type of challenge to the District Court's order. 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.

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

During November 2019, we acquired Pursuit. Total consideration for the acquisition includes a potential contractual earn-out of up to $50.0 million, to be paid to former Pursuit equity holders, calculated based upon the achievement of certain performance targets during the earn-out period (see Note 8: Fair Value Measurement).

Commitments

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

Note 19: Collaborative and Other Arrangements

On February 3, 2017, we entered into two Manufacturing and Supply Agreements ("MSAs"), (i) whereby Pfizer will manufacture and supply us with certain agreed upon products for an initial five-year term with a one-time two-year option to extend and (ii) whereby we will manufacture and supply Pfizer certain agreed upon products for a term of five or ten years depending on the product, also with a one-time two-year option to extend. The MSAs provide each party with mutually beneficial interests and both of the MSAs are to be jointly managed by both Pfizer and ICU. The initial supply price, which will be annually updated, is in full consideration for all costs associated with the manufacture, documentation, packaging and certification of the products.

Note 20: Subsequent Events

In late 2019, a novel coronavirus ("COVID-19") was first reported in Wuhan, China, and on March 11, 2020, the World Health Organization characterized COVID-19 as a global pandemic. The spread of COVID-19 around the world in 2020 has caused significant volatility in U.S. and international markets. The ultimate disruption caused by the outbreak is uncertain; however, it may result in a material adverse impact on our financial position, results of operations and cash flows. Possible impact may include, but is not limited to: lost revenue or additional costs associated with a disruption to our production or distribution facilities; customers may experience financial difficulties and may be unable to pay within payment terms for the products they purchased; reduced revenue due to restricted access to healthcare customers; lower revenue and income due to foreign currency fluctuations; lower travel and entertainment costs due to travel restrictions; and lower income due to a delay in cost savings projects. While our operations have been designated as essential activities by certain state and city jurisdictions, COVID-19 is likely to negatively impact our operating results and financial position, the extent and duration cannot be reasonably estimated at this time.

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, 2019 included in our Annual Report on Form 10-K.

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

Business Overview

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

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

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

Operations Overview

COVID-19 Update

In late 2019, a novel coronavirus ("COVID-19") was first reported in Wuhan, China, and on March 11, 2020, the World Health Organization characterized COVID-19 as a global pandemic. The outbreak has spread globally and has led governments and other authorities around the world, including federal, state and local authorities in the United States and elsewhere, to impose measures intended to control its spread, including restrictions on freedom of movement and business operations such as travel restrictions, border closings, business closures, quarantines and shelter-in-place orders. Additionally, the COVID-19 pandemic and the measures taken to limit its spread have negatively impacted the economy across many industries. As such, COVID-19 pandemic may pose significant risks to our business. We operate globally and the COVID-19 pandemic and its adverse effects have impacted most of the locations where we, our customers and our suppliers conduct business and as a result, during the first quarter of 2020, we have experienced some disruption to our operations, most notably due to self-imposed travel restrictions.

As a result of the COVID-19 pandemic, we have temporarily closed our non-essential offices and facilities, including our corporate headquarters. With a large number of employees now working remotely there is a potential loss of productivity, which could negatively impact our future results.

Our manufacturing, distribution, and pump service facilities are operating under our business continuity plan due to the need for our critical healthcare products, however, we have taken certain precautionary measures including the following to maximize the safety of our employees and to mitigate disruption to our operations:

- implemented physical distancing measures;
- enhanced hygiene protocols and increased frequency of cleaning procedures;
- acquired additional personal protective equipment;
- developed contingency plans and protocols to assess employee illness;
- helped employees with childcare issues due to school and daycare closures;
- implemented COVID-19 temperature screening for employees entering our manufacturing and distribution facilities; and
- initiated a visitor pre-entry questionnaire to limit potential exposure in our facilities.

During the quarter ended March 31, 2020, we saw increased demand for our products as a result of customer stocking, particularly within our IV Solutions and Infusion Systems product lines. We also experienced foreign exchange losses related to

the strengthening of the U.S. dollar relative to certain foreign currencies as general economic conditions declined. During March 2020, as a precautionary measure in response to market uncertainty driven by COVID-19, we preemptively increased our liquidity by borrowing $150.0 million under our Senior Secured Revolving Credit Facility ("Credit Facility").

The effect of the COVID-19 pandemic will not be fully reflected in our results of operations and overall financial performance until future periods. The duration and extent of the impact from the COVID-19 pandemic depends on future developments that cannot be fully predicted at this time, as such, the impact of the pandemic on our future results of operations and overall financial performance remain uncertain and can not as yet be quantified. However, our future results could be impacted by the following:

- lost revenue or additional costs associated with either disruptions at our production and distribution facilities or interruptions in our supply chain;
- fluctuations in demand from customers as a result of an increase in COVID-19 patient admissions in hospitals offset by the decline in non-COVID-19 patient admissions;
- healthcare customers that defer the more profitable elective procedures may experience financial difficulties and may be unable to pay within payment terms for the products they purchased;
- potential lower demand in future periods due to over-purchasing of our products due to the COVID-19 pandemic;
- reduced revenue due to delays in implementation of our infusion systems and oncology products at hospital locations due to restricted access;
- higher operating costs related to additional compensation paid to our manufacturing and distribution facility workers;
- volatility in revenue and income due to foreign currency fluctuations;
- lower travel and entertainment costs due to global travel restrictions;
- lower income due to a delay in cost savings projects as a result of the travel and social distancing requirements of COVID-19; and
- lower interest income on cash balances due to recent reductions in interest rates along with higher interest expense from borrowing $150.0 million under our Credit Facility.

See Risk Factors for further information regarding the actual and potential future impacts of the COVID-19 pandemic on us, our operations and our business.

Infusion Consumables

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

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

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

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

- *NovaCath™ and SuperCath™* peripheral IV catheters (PIV); and

- *ClearGuard HD* antimicrobial barrier caps for hemodialysis catheters.

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

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

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

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

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

Infusion Systems

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

Infusion Pump Hardware:

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

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

IV Mediation Safety Software:

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

Professional Services:

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

IV Solutions

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

IV Therapy and Diluents:

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

Irrigation:

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

Critical Care

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

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

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

	Three months ended March 31,			
	2020		2019	
	$	% of Revenue	$	% of Revenue
Domestic	$ 230.2	70%	$ 247.2	75%
International	98.4	30%	83.7	25%
Total Revenue	$ 328.6	100%	$ 330.9	100%

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

	Three months ended March 31,	
Product line	**2020**	**2019**
Infusion Consumables	37%	36%
Infusion Systems	27%	26%
IV Solutions	32%	34%
Critical Care	4%	4%
	100%	100%

We manage our product distribution in the U.S. through a network of three owned and one leased 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 distribution utilizing international regional hubs and through independent distributors.

In the U.S. a substantial amount of our products are sold to group purchasing organization member hospitals. We believe that as healthcare providers continue to either consolidate or join major buying organizations, the success of our products will depend, in part, on our ability, either independently or through strategic relationships to secure long-term contracts with large healthcare providers and major buying organizations. Although we believe that we are not dependent on any single distributor, large healthcare provider or major buying organization for distribution of our products, the loss of a strategic relationship with any one of these organizations or a decline in the demand for our products could have a material adverse effect on our operating results.

We believe that achievement of our growth objectives worldwide will require increased efforts by us in sales and marketing and product acquisition and development; however, there is no assurance that we will be successful in implementing our growth strategy. Product development or acquisition efforts may not succeed, and even if we do develop or acquire additional products, there is no assurance that we will achieve profitable sales of such products. Increased expenditures for sales and marketing and product acquisition and development may not yield desired results when expected, or at all. While we have taken steps to control these risks, there are certain risks that may be outside of our control, and there is no assurance that steps we have taken will succeed.

Seasonality/Quarterly Results

There are no significant seasonal aspects to our business. We may experience fluctuations in net sales as a result of variations in the ordering patterns of our largest customers, which may be driven more by production scheduling and their inventory levels, rather than by seasonality. Our expenses often do not fluctuate in the same manner as net sales, which may cause fluctuations in operating income that are disproportionate to fluctuations in our revenue.

Consolidated Results of Operations

We present income statement data in Part I, Item 1 - Financial Statements. The following table shows, for the three months ended March 31, 2020 and 2019, the percentages of each income statement caption in relation to total revenue:

	Three months ended March 31,	
	2020	**2019**
Total revenue	100 %	100 %
Gross margin	37 %	41 %
Selling, general and administrative expenses	22 %	22 %
Research and development expenses	3 %	4 %
Restructuring and strategic transaction	4 %	7 %
Change in fair value of contingent earn-out	— %	(2)%
Contract settlement	— %	1 %
Total operating expenses	29 %	32 %
Income from operations	8 %	9 %
Interest expense	— %	— %
Other (expense) income, net	(2)%	1 %
Income before income taxes	6 %	10 %
Provision for income taxes	(1)%	(1)%
Net income	5 %	9 %

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

Infusion Consumables

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

	Three months ended March 31,			
	2020	**2019**	**$ Change**	**% Change**
Infusion Consumables	$ 123.5	$ 120.5	$ 3.0	2.5%

Infusion Consumables revenue increased for the three months ended March 31, 2020, as compared to the same period in the prior year driven by the addition of new customers for our oncology products and increased orders from distributors partly due to the global COVID-19 pandemic. On a constant currency basis, Infusion Consumables revenue would have been $125.0 million for the three months ended March 31, 2020, an increase of $4.5 million or 3.6%, as compared to the same period in the prior year.

Infusion Systems

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

	Three months ended March 31,			
	2020	**2019**	**$ Change**	**% Change**
Infusion Systems	$ 88.4	$ 84.3	$ 4.1	4.9%

Infusion Systems revenue increased for the three months ended March 31, 2020, as compared to the same period in the prior year due to high demand for our infusion pumps and increased orders from distributors primarily driven by the global COVID-19 pandemic. On a constant currency basis Infusion Systems revenue would have been $90.5 million for the three months ended March 31, 2020, an increase of $6.2 million or 7.4%, as compared to the same period in the prior year.

IV Solutions

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

	Three months ended March 31,			
	2020	**2019**	**$ Change**	**% Change**
IV Solutions	$ 104.3	$ 113.2	$ (8.9)	(7.9)%

IV Solutions sales decreased for the three months ended March 31, 2020, as compared to the same period in the prior year, primarily due to lower contract manufacturing sales to Pfizer. IV Solutions revenue was positively impacted in the period by stocking orders related to the global COVID-19 pandemic.

Critical Care

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

	Three months ended March 31,			
	2020	**2019**	**$ Change**	**% Change**
Critical Care	$ 12.4	$ 12.9	$ (0.5)	(3.9)%

Critical Care revenue decreased for the three months ended March 31, 2020, as compared to the same period in the prior year, primarily as a result of manufacturing challenges that resulted in supply constraints of certain products.

Gross Margins

For the three months ended March 31, 2020 and 2019, gross margins were 36.9% and 40.9%, respectively. The decrease in gross margin for the three months ended March 31, 2020, as compared to the same period in the prior year was primarily due to lower IV Solutions manufacturing volumes and charges related to the disposal of certain infusion sets.

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

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

	Three months ended March 31,			
	2020	2019	$ Change	% Change
SG&A	$ 72.3	$ 72.6	$ (0.3)	(0.4)%

SG&A expenses in total were flat for the three months ended March 31, 2020, as compared to the same period in the prior year. For the three months ended March 31, 2020 as compared to the same period in the prior year, bad debt expense decreased $2.5 million, consulting expense decreased $1.8 million, and travel expenses decreased $1.0 million. Offsetting these decreases was a $2.3 million increase in dealer fees and a $1.8 million increase in amortization expense. Bad debt expense is estimated based on an analysis of the expected losses on the accounts receivables at the reporting date, which varies from period-to-period due to the quality of those receivables. Consulting expense was higher in the prior year due to the integration of our HIS business acquired in 2017. Travel expenses decreased in the current year, as compared to the same prior year period, due to our ongoing efforts to reduce travel costs, and to a lesser extent due to self-imposed travel restrictions in response to COVID-19. Dealer fees increased due to an increase in revenue from distributors. Amortization expense increased as a result of the increase in amortization base due to the November 2019 acquisition of Pursuit Vascular, Inc ("Pursuit").

Research and Development ("R&D") Expenses

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

	Three months ended March 31,			
	2020	2019	$ Change	% Change
R&D	$ 10.7	$ 12.8	$ (2.1)	(16.4)%

R&D expenses decreased for the three months ended March 31, 2020, as compared to the same period in the prior year. R&D expense primarily relates to compensation and related benefit expenses on current R&D projects.

Restructuring and Strategic Transaction and Integration Expenses

Restructuring and strategic transaction and integration expenses were $12.3 million and $24.4 million for the three months ended March 31, 2020 and 2019, respectively.

Restructuring charges

Restructuring charges were $7.2 million and $0.8 million for the three months ended March 31, 2020 and 2019, respectively. Restructuring charges for the three months ended March 31, 2020, were primarily related to severance and other costs related to office and facility closures. For the three months ended March 31, 2019, the restructuring charges were related to the integration of our acquired HIS business. We expect to pay our unpaid restructuring charges as of March 31, 2020 by the end of the year.

Strategic transaction and integration expenses

Strategic transaction and integration expenses were $5.1 million and $23.6 million for the three months ended March 31, 2020 and 2019, respectively. The strategic transaction and integration expenses during the three months ended March 31, 2020 were primarily related to the integration of HIS which included the migration of IT systems at our Austin facility. The strategic transaction and integration expenses during the three months ended March 31, 2019, were primarily related to our final Pfizer separation costs and clean-up, which included a $12.7 million non-cash write-off of related assets.

Change in Fair Value of Earn-out

For the three months ended March 31, 2020, there was no change in fair value of the Pursuit earn-out liability as the underlying target forecasts did not change. For the three months ended March 31, 2019, we conducted a revaluation of the fair value of our HIS contingent earn-out liability that resulted in a decrease of value of $7.7 million.

Contract Settlement

For the three months ended March 31, 2019, we incurred an expense of $2.9 million 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.

Interest Expense

Interest expense was $0.2 million and $0.1 million or the three months ended March 31, 2020 and 2019, respectively. The interest expense for all periods is related to the per annum commitment fee charged on the unused portion of the revolver under our Credit Facility, the amortization of financing costs incurred as of year-end December 31, 2017, in connection with entering into the Credit Facility, and for the three months ended March 31, 2020, interest incurred on borrowings under the Credit Facility (see Note 16: Long-Term Obligations in our accompanying condensed consolidated financial statements for additional information). Interest expense for the remainder of 2020 will increase due to the borrowing under the revolving Credit Facility.

Other (Expense) Income, net

Other (expense) income netted to ($5.5) million and $3.2 million for the three months ended March 31, 2020 and 2019, respectively. For the three months ended March 31, 2020, the other expense, net was primarily related to $6.1 million in foreign exchange losses as a result of the strengthening of the U.S. dollar from the impact of COVID-19, partially offset by interest income. For the three months ended March 31, 2019, the other income, net was primarily interest income and foreign exchange gains.

Income Taxes

For the three months ended March 31, 2020 and 2019, income taxes were accrued at an estimated effective tax rate of 17% and 7%, respectively.

The effective tax rate for the three months ended March 31, 2020 differs from the federal statutory rate of 21% principally because of the effect of the mix of U.S. and foreign incomes, state income taxes, global intangible low-taxed income ("GILTI"), foreign-derived intangible income ("FDII") and tax credits.

The effective tax rate for the three months ended March 31, 2019 differs from the federal statutory rate of 21% principally because of the effect of the mix of U.S. and foreign incomes, state income taxes, GILTI and tax credits. The effective tax rate during the three months ended March 31, 2019 included a tax benefit of $5.6 million related to the excess tax benefits recognized on stock option exercises and the vesting of restricted stock units during the period.

Liquidity and Capital Resources

During the first three months of 2020, our cash, cash equivalents and short-term investments increased by $147.0 million from $292.6 million at December 31, 2019 to $439.7 million at March 31, 2020.

We are continuously assessing our liquidity and anticipated capital requirements due to the uncertainty created by COVID-19. We are currently closely monitoring and managing our receivable and payable balances.

Cash Flows from Operating Activities

Our net cash provided by operations for the three months ended March 31, 2020 was $39.5 million. Net income plus adjustments for non-cash net expenses contributed $55.3 million. Net cash used in operations as a result of changes in operating assets and liabilities was $15.8 million. The changes in operating assets and liabilities included a $35.1 million decrease in accounts payable, and a $6.4 million increase in other assets. Offsetting these amounts was a $19.4 million decrease in inventories, a $2.6 million decrease in prepaid expenses and other current assets, $2.3 million in net changes in income taxes,

including excess tax benefits and deferred income taxes, a $0.9 million decrease in accounts receivables, and a $0.5 million increase in accrued liabilities. The decrease in accounts payable was due to the timing of payments. The increase in other assets was due to the purchase of spare parts. The decrease in inventory was primarily due to improved inventory management and increased demand for certain products driven by the global COVID-19 pandemic. The increase in prepaid expenses and other current assets was primarily due to an increase in deferred costs. The net changes in income taxes was a result of the timing of payments.

Our net cash used in operations for the three months ended March 31, 2019 was $21.0 million. Net income plus adjustments for non-cash net expenses contributed $70.5 million. Net cash used in operations as a result of changes in operating assets and liabilities was $91.5 million. The changes in operating assets and liabilities included a $49.5 million
increase in accounts receivable, a $34.8 million decrease in accrued liabilities, a $12.0 million increase in inventories, a $7.5 million increase in other assets and $1.1 million in net changes in income taxes, including excess tax benefits and deferred income taxes. Offsetting these amounts was a $10.3
million decrease in prepaid expenses and other current assets and a $3.1 million increase in accounts payable. The increase in accounts receivable was mainly due to the reclassification of receivables from Pfizer and the timing of revenue and collections. In 2019, receivables from Pfizer are included in accounts receivable and not in a separate related-party receivable line item as in 2018. As of December 31, 2018, Pfizer had sold all of its shares of ICU common stock thereby ending its related-party relationship with ICU. The decrease in accrued liabilities was primarily a result of the payout of accrued compensation. The increase in inventory was primarily due to an increase in our finished goods safety stock. The increase in other assets was primarily related to the purchase of spare parts. The net changes in income taxes was a result of the timing of payments. The decrease in prepaid expenses and other current assets was primarily due to the collection of receivable amounts owed from Pfizer. The increase in accounts payable was due to the timing of payments.

Cash Flows from Investing Activities

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

	Three months ended March 31,			
	2020	**2019**	**Change**	
Investing Cash Flows:				
Purchases of property and equipment	$ (25,463)	$ (28,671)	$ 3,208	(1)
Proceeds from sale of assets	131	16	115	
Intangible asset additions	(1,958)	(1,949)	(9)	
Purchases of investment securities	(7,082)	(4,409)	(2,673)	(2)
Proceeds from sale of investment securities	10,900	24,500	(13,600)	(3)
Net cash used in investing activities	$ (23,472)	$ (10,513)	$ (12,959)	

(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.

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

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

While we can provide no assurances, we estimate that our capital expenditures in 2020 will be approximately $85.0 million to $90.0 million. We anticipate making additional investments in machinery and equipment in our manufacturing operations in Costa Rica, the U.S. and Mexico to support new and existing products, in infusion devices that are placed with customers outside the U.S., and in IT to benefit world-wide operations. 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):

	Three months ended March 31,		
	2020	2019	Change
Financing Cash Flows:			
Proceeds from short-term debt	$ 150,000	$ —	$ 150,000 (1)
Proceeds from exercise of stock options	560	925	(365) (2)
Tax withholding payments related to net share settlement of equity awards	(12,174)	(18,157)	5,983 (3)
Net cash provided by (used in) financing activities	$ 138,386	$ (17,232)	$ 155,618

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

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

(2) During the three months ended March 31, 2020, our employees surrendered 63,511 shares of our common stock from vested restricted stock awards as consideration for approximately $12.2 million in minimum statutory withholding obligations paid on their behalf. During the three months ended March 31, 2019, our employees surrendered 77,642 shares of our common stock from vested restricted stock awards as consideration for approximately $18.2 million in minimum statutory withholding obligations paid on their behalf.

In August 2019, our Board of Directors approved a share purchase plan to purchase up to $100.0 million of our common stock. This plan replaced our existing plan and has no expiration date. As of March 31, 2020, all of the $100 million available for purchase was remaining under the plan.

We have a substantial cash and investment security position generated from operations and from borrowings under our revolving Credit Facility. We maintain this position to address any operational challenges related to COVID-19, fund our growth, meet increasing working capital requirements, fund capital expenditures and to take advantage of acquisition opportunities that may arise. Our primary investment goal is capital preservation.

Access to Capital

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, 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. Our ability to generate cash flows from operations, issue debt or enter into other financing arrangements on acceptable terms could be adversely affected if there is a material decline in the demand for our products or in the solvency of our customers or suppliers, deterioration in our key financial ratios or credit ratings or other significantly unfavorable changes in conditions.

Credit Facility

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

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 March 31, 2020.

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

During 2019, we signed ten-year lease for a 610,806 square foot warehouse, which commenced during the first quarter of 2020. Over the ten-year lease term, lease payment will be approximately $21.9 million. There have been no other material changes to our contractual obligations disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019 ("Annual Report").

Critical Accounting Policies

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

New Accounting Pronouncements

See Note 2 to Part I, Item 1. Financial Statements.

Forward Looking Statements

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

- future growth; future operating results and various elements of operating results, including future expenditures and effects with respect to sales and marketing and product development and acquisition efforts; future sales and unit volumes of products; expected increases and decreases in sales; deferred revenue; accruals for restructuring charges, future license, royalty and revenue share income; production costs; gross margins; litigation expense; future SG&A and R&D expenses; manufacturing expenses; future costs of expanding our business; income; losses; cash flow; amortization; source of funds for capital purchases and

operations; future tax rates; alternative sources of capital or financing; changes in working capital items such as receivables and inventory; selling prices; and income taxes;

- factors affecting operating results, such as shipments to specific customers; reduced dependence on current proprietary products; loss of a strategic relationship; change in demand; domestic and international sales; expansion in international markets, selling prices; future increases or decreases in sales of certain products and in certain markets and distribution channels; maintaining strategic relationships and securing long-term and multi-product contracts with large healthcare providers and major buying organizations; increases in systems capabilities; introduction, development and sales of new products, acquisition and integration of businesses and product lines; 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; 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, 2019, Part II, Item 1A of this Quarterly Report on Form 10-Q and our other reports filed with the SEC. Also, actual future operating results are subject to other important factors and risks that we cannot predict or control, including without limitation, the following:

- the impacts of the COVID-19 pandemic on us, our business and on domestic and global economies generally;
- general economic and business conditions, both in the U.S. and internationally;
- unexpected changes in our arrangements with Pfizer or our other large customers;
- outcome of litigation;
- fluctuations in foreign exchange rates and other risks of doing business internationally;
- increases in labor costs or competition for skilled workers;
- increases in costs or availability of the raw materials need to manufacture our products;
- the effect of price and safety considerations on the healthcare industry;
- competitive factors, such as product innovation, new technologies, marketing and distribution strength and price erosion;

- the successful development and marketing of new products;
- unanticipated market shifts and trends;
- the impact of legislation affecting government reimbursement of healthcare costs;
- changes by our major customers and independent distributors in their strategies that might affect their efforts to market our products;
- the effects of additional governmental regulations;
- unanticipated production problems;
- the availability of patent protection and the cost of enforcing and of defending patent claims; and
- natural disasters and outbreak of disease or illness.

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

We are exposed to interest rate changes primarily as a result of our borrowings under our Credit Facility used to increase liquidity as a precautionary measure in response to market uncertainty driven by COVID-19.

During March 2020, we drew down $150 million on our Credit Facility. Interest on the borrowed portion of the Credit Facility bears interest at our option, based on the Base Rate plus applicable margin or the LIBOR rate plus applicable margin, see further details in Part II, Item 8, of our 2019 Annual Report on Form 10-K. As a result of our Credit Facility, we are exposed to interest rate risk from changes in these interest rates. We use a sensitivity analysis to measure our interest risk exposure.

Based on our Credit Facility balance of $150.0 million at March 31, 2020 and assuming the use of the LIBOR rate, a 1% change in interest rates could potentially result in additional annual interest expense or savings of $1.5 million.

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 March 31, 2020 was approximately €55.9 million. A 10% change in the conversion of the Euro to the U.S. dollar for our cash, accounts receivable, accounts payable and accrued liabilities from the March 31, 2020 spot rate would impact our consolidated amounts on these balance sheet items by approximately $6.1 million, or 0.7% 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. In our Canadian operations, our net Canadian dollar asset position at March 31, 2020 was approximately $24.5 million. A 10% change in the conversion of the Canadian dollar to the U.S. dollar for our cash, accounts receivable, accounts payable and accrued liabilities from the March 31, 2020 spot rate would impact our consolidated amounts on these balance sheet items by approximately $1.6 million, or 0.2% of these net assets. We currently do not hedge our Canadian dollar or Euro foreign currency exposures.

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

There was no change in our internal control over financial reporting during the quarter ended March 31, 2020 that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

The COVID-19 pandemic has disrupted how we, our suppliers and our customers operate and the duration and extent to which this will impact our business, future results of operations, liquidity and overall financial performance remains uncertain.

In late 2019, a novel coronavirus (“COVID-19”) was first reported in Wuhan, China, and on March 11, 2020, the World Health Organization characterized COVID-19 as a global pandemic. The outbreak has spread globally and has led governments and other authorities around the world, including federal, state and local authorities in the United States and elsewhere, to impose measures intended to control its spread, including restrictions on freedom of movement and business operations such as travel restrictions, border closings, business closures, quarantines and shelter-in-place orders. Additionally, the COVID-19 pandemic and the measures taken to limit its spread have negatively impacted the economy across many industries. As such, COVID-19 pandemic may pose significant risks to our business. We operate globally and the COVID-19 pandemic and its adverse effects have impacted most of the locations where we, our customers and our suppliers conduct business and as a result, during the first quarter of 2020, we have experienced some disruption to our operations, most notably due to self-imposed travel restrictions.

As a result of the COVID-19 pandemic, we have temporarily closed certain offices and facilities deemed non-essential under applicable guidance from relevant authorities, including our corporate headquarters. With a large number of employees now working remotely there is a potential loss of productivity, which could negatively impact our future results.

Our manufacturing, distribution, and pump service facilities are operating under our business continuity plan due to the need for our critical healthcare products, however, we have taken certain precautionary measures including the following to maximize the safety of our employees and to mitigate disruption to our operations:

- implemented physical distancing measures;
- enhanced hygiene protocols and increased frequency of cleaning procedures;
- acquired additional personal protective equipment;
- developed contingency plans and protocols to assess employee illness;
- helped employees with childcare issues due to school and daycare closures;
- implemented COVID-19 temperature screening for employees entering our manufacturing and distribution facilities; and
- initiated a visitor pre-entry questionnaire to limit potential exposure in our facilities.

While we anticipate that the foregoing measures are temporary, we cannot predict the specific duration for which these precautionary measures will stay in effect, and we may elect to take additional measures as the information available to us continues to develop. These actions, and any future actions we may take in response to the COVID-19 pandemic, could negatively impact our business, financial condition and results of operations.

Additionally, the effect of the COVID-19 pandemic on our business will not be fully reflected in our results of operations and overall financial performance until future periods. The duration and extent of the impact on our business from the COVID-19 pandemic depends on future developments that cannot be fully predicted at this time, as such, the impact of the COVID-19 pandemic on our future results of operations and overall financial performance remain uncertain and cannot as yet be quantified. For example, a decline in the global economy could delay or significantly decrease purchases of our products in the future. Adverse economic and market conditions could also harm the parties with whom we do business, including our customers, distributors and suppliers. Additional factors that have contributed or may contribute to the adverse impact of the COVID-19 pandemic, on our business, results of operations, financial condition and liquidity include, without limitation, the following:

- lost revenue or additional costs associated with either disruptions at our production and distribution facilities or interruptions in our supply chain;
- fluctuations in demand from customers as a result of an increase in COVID-19 patient admissions in hospitals offset by the decline in non-COVID-19 patient admissions;
- healthcare customers that defer the more profitable elective procedures may experience financial difficulties and may be unable to pay within payment terms for the products they purchased;
- potential lower demand in future periods due to over-purchasing of our products due to the COVID-19 pandemic;
- reduced revenue due to delays in implementation of our infusion systems and oncology products at hospital locations due to restricted access;
- higher operating costs related to additional compensation paid to our manufacturing and distribution facility workers;
- volatility in revenue and income due to foreign currency fluctuations;
- lower travel and entertainment costs due to global travel restrictions;
- lower income due to a delay in cost savings projects as a result of the travel and social distancing requirements of COVID-19; and
- lower interest income on cash balances due to recent reductions in interest rates along with higher interest expense from borrowing $150.0 million under our Credit Facility.

To the extent the COVID-19 pandemic and related containment measures continue to adversely affect regional, national and global economic conditions and financial markets, as well as the business, results of operations, financial conditions and liquidity of us, our suppliers and our customers, it may also have the effect of heightening many of the risks described in this ‘‘Risk Factors’’ section and elsewhere in this Quarterly Report on Form 10-Q for the quarter ended March 31, 2020 and many of the risks described under the caption ‘‘Risk Factors’’ and elsewhere in our Annual Report on Form 10-K for the year ended December 31, 2019, including the risks resulting from our dependency on key personnel; impairment of our supply chain or manufacturing facilities; and the impact of negative economic conditions. In addition, in light of the COVID-19 pandemic and the measures taken to limit its spread, our historical information regarding our business, results of operations, financial condition or liquidity may not be representative of the future results of operations, financial condition, liquidity or other financial or operating results of us or our business.

Our ability to manufacture products may be materially adversely impacted by COVID-19.

We manufacture out of four main facilities, Austin, Texas, Salt Lake City, Utah, Costa Rica and Mexico. If the manufacturing capabilities of any of these sites are impacted as a result of COVID-19, we may not be able to timely manufacture our products at the required levels or at all. A disruption at any of our manufacturing facilities could have a material, adverse effect on our business, results of operations, financial condition and cash flows. For example, the COVID-19 pandemic could have a substantial impact on our employees’ attendance and productivity due to a variety of factors, such as shelter-in-place orders, quarantines and short and long term illness, all of which could interrupt and delay the manufacture of our products.

Our suppliers may experience financial difficulties or business disruptions that could negatively affect their operations and their ability to supply us with the raw materials and components required for our products. Any delay or shortages of raw materials or components from our suppliers could interrupt and delay the manufacturing of our products.

Our sales may be materially adversely impacted by COVID-19.

We have temporarily closed our non-essential offices and facilities, including our corporate headquarters, and a large number of employees are now working remotely. In addition to this potentially hindering productivity, our sales force typically operates by meeting in person with customers to discuss our products. As many hospitals are currently restricting access to their facilities to essential personnel, this may negatively affect demand for our products by limiting the ability of our sales personnel to negotiate new and maintain existing contracts with customers. We may also experience significant reductions in demand for

certain products as our health care customers re-prioritize the treatment of patients, delay elective procedures and shift resources and operations to fight COVID-19 and the complications it causes. Additionally, the COVID-19 pandemic will potentially adversely affect our distributors as they may not be able to maintain the current levels of sales. As such, the impacts of COVID-19 on our sales force and our distributors could have a material adverse effect on our business, results of operations, financial condition and cash flows.

The COVID-19 pandemic has resulted in significant financial market and foreign currency volatility, which could adversely affect our earnings and cash flows.

The COVID-19 pandemic has led to periods of significant volatility in financial markets and foreign currency exchange rates. Given that our financial results are reported in U.S. dollars, but our operations are conducted internationally, currency exchange rate changes can have a significant impact on our financial results. During the first quarter of 2020, we recognized $6.1 million in net foreign exchange losses in our results of operations.

We are subject to risks associated with debt financing.

The credit agreement governing our Credit Facility contains, among other things, certain customary restrictive covenants that limit our ability to incur additional indebtedness and liens, merge with other companies or consummate certain changes of control, acquire other companies, make certain investments, pay dividends, enter into certain transactions with affiliates, and transfer or dispose of assets as well as financial covenants requiring us to maintain a specified consolidated total leverage ratio and a specified consolidated fixed charge coverage ratio. While we have not previously breached and are not currently in breach of these or any other covenants contained in our credit agreement, there can be no guarantee that we will not breach these covenants in the future.

Additionally, our ability to comply with these covenants may be affected by events beyond our control, including the COVID-19 pandemic. A breach of any of these covenants could result in a default under the credit agreement, which could cause all of the outstanding indebtedness under our Credit Facility to become immediately due and payable. These covenants could also limit our ability to seek capital through the incurrence of new indebtedness or, if we are unable to meet our obligations, require us to repay any outstanding amounts with sources of capital we may otherwise use to fund our business. As such, these restrictive covenants contained in our Credit Facility may restrict our ability to pursue our business strategies.

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, 2019, including the risks resulting from our foreign currency exchange rates, 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 first quarter of 2020:

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)]
01/01/2020 — 01/31/2020	—	$ —	—	$ 100,000,000
02/01/2020 — 02/29/2020	—	$ —	—	$ 100,000,000
03/01/2020 — 03/31/2020	—	$ —	—	$ 100,000,000
First quarter of 2020 total	—	$ —	—	$ 100,000,000

(1) Our common stock purchase plan, which authorized the repurchase of up to $100.0 million of our common stock, was authorized by our Board of Directors and publicly announced in August, 2019. This plan has no expiration date. We are not obligated to make any purchases under our stock purchase program. Subject to applicable state and federal corporate and securities laws, purchases under a stock purchase program may be made at such times and in such amounts as we deem appropriate. Purchases made under our stock purchase program can be discontinued at any time we feel additional purchases are not warranted.

Item 6. Exhibits

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

Signature

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

ICU Medical, Inc.

(Registrant)

/s/ Brian M. Bonnell Date: May 8, 2020

Brian M. Bonnell

Chief Financial Officer

(Principal Financial Officer)

Exhibit Index

Exhibit 10.1	Retirement and Separation Agreement, dated as of February 27, 2020, by and between ICU Medical, Inc. and Scott Lamb. Filed as an Exhibit to Registrant's Current Report on Form 8-K filed February 28, 2020 and incorporated herein by reference.
Exhibit 31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 32.1	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 101.INS	XBRL Instance Document - this instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
Exhibit 101.SCH	XBRL Taxonomy Extension Schema Document
Exhibit 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
Exhibit 101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
Exhibit 101.LAB	XBRL Taxonomy Extension Label Linkbase Document
Exhibit 101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
Exhibit 104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

Exhibit 31.1

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

I, Vivek Jain, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: May 8, 2020

/s/ Vivek Jain

Chief Executive Officer

Exhibit 31.2

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

I, Brian M. Bonnell, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: May 8, 2020

/s/ Brian M. Bonnell

Chief Financial Officer

Exhibit 32.1

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

In connection with the Quarterly Report of ICU Medical, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2020 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.

May 8, 2020

/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 March 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Brian M. Bonnell, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

May 8, 2020

/s/ Brian M. Bonnell
Brian M. Bonnell