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: June 30, 2024
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)
N/A
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Indicate by check mark whether the registrant has submitted electronically 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 ☐

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	☐
Non-accelerated filer	☐	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. ☐

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

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

Class	Outstanding at July 31, 2024
Common	24,425,279

ICU MEDICAL, INC. AND SUBSIDIARIES
Form 10-Q
June 30, 2024

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Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements, other than statements of present and historical fact, contained in this Quarterly Report on Form 10-Q, including, without limitation, statements regarding our future results of operations and financial position, business strategy and approach, expected capital expenditures; expected impacts from new accounting and tax regulations; as well as plans and objectives of management for future operations may be forward-looking statements. Without limiting the foregoing, in some cases, you can identify forward-looking statements by terms such as "aim," "may," "will," "should," "expect," "exploring," "plan," "anticipate," "could," "intend," "target," "project," "contemplate," "believe," "estimate," "predict," "potential," "seeks," or "continue" or the negative of these terms or other similar expressions, although not all forward-looking statements contain these words. No forward-looking statement is a guarantee of future results, performance, or achievements, and one should avoid placing undue reliance on such statements.

The forward looking statements in this Quarterly Report on Form 10-Q are only predictions and are based largely on our current expectations and projections about future events and financial trends that we believe may affect our business, financial condition and results of operations. These forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q and are subject to a number of known and unknown risks, uncertainties and assumptions, including without limitation, the following:

- our failure to compete successfully with our competitors and maintain market share;
- significant decline in demand for our products;
- our inability to fund substantial investment in product development and recover such investment through commercial product sales;
- prolonged periods of inflation, rising interest rates and the impact of foreign currency exchange rates as a result of the current global macroeconomic and geopolitical conditions, for example, armed conflicts between Ukraine and Russia and in Israel;
- our exposure to risks related to foreign currency exchange rates;
- continuing pressures to reduce healthcare costs and inadequate coverage and reimbursement;
- disruptions at the FDA, other government agencies or notified bodies caused by funding shortages or global health concerns;
- failure to protect our information technology systems against security breaches, service interruptions, or misappropriation of data;
- damage to any of our manufacturing facilities or disruption to our supply chain network;
- our dependence on single and limited source third-party suppliers, which subjects our business and results of operations to risks of supplier business interruptions, and a loss or degradation in performance in our suppliers;
- our failure to achieve expected operating efficiencies or expense reductions associated with cost reduction and restructuring efforts;
- significant sales through our distributors;
- additional risks from international sales, related to competition with larger international companies and established local companies and our possibly higher cost structure;
- any significant changes in U.S. trade, tax or other policies that restrict imports or increase import tariffs;
- actual or perceived failures to comply with foreign, federal, and state data privacy and security laws, regulations and standards, or certain fraud and abuse and transparency laws;
- our failure to defend and enforce our patents or other proprietary rights and the cost of enforcing and of defending patent claims or claims of other proprietary rights; and expiration of our patents;
- our failure to effectively manage our growth and change to our business resulting from the Smiths Medical acquisition or any other future acquisitions; and
- the actual impact of the Smiths Medical acquisition on our financial results and our use of a significant portion of our cash on hand and incurrence of a substantial amount of debt to finance the Smiths Medical acquisition, which could adversely affect our business, including by restricting our ability to engage in additional transactions or incur additional indebtedness.

For a more detailed discussion of these factors, see the information under the sections entitled "Summary Risk Factors," Part I. Item 1A. "Risk Factors" and Part II. Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2023 (the "2023 Annual Report on Form 10-K") filed with the Securities and Exchange Commission (the "SEC"), and the sections in this Quarterly

Report on Form 10-Q entitled Part II. Item 1A "Risk Factors" and Part I. Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations," in each case as updated by our periodic filings with the SEC.

Because forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified and some of which are beyond our control, you should not rely on these forward-looking statements as predictions of future events. The events and circumstances reflected in our forward-looking statements may not be achieved or occur and actual results could differ materially from those projected in the forward-looking statements. Moreover, we operate in an evolving environment. New risk factors and uncertainties may emerge from time to time, and it is not possible for management to predict all risk factors and uncertainties. Except as required by applicable law, we do not plan to publicly update or revise any forward-looking statements contained herein, whether as a result of any new information, future events, changed circumstances or otherwise.

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

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

	June 30, 2024	December 31, 2023
	(Unaudited)	(1)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 302,648	$ 254,222
Short-term investment securities	—	501
TOTAL CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENT SECURITIES	302,648	254,723
Accounts receivable, net of allowance for doubtful accounts $11,772 at June 30, 2024 and $11,064 at December 31, 2023	151,765	161,566
Inventories	682,870	709,360
Prepaid income taxes	17,883	21,983
Prepaid expenses and other current assets	80,825	73,640
TOTAL CURRENT ASSETS	1,235,991	1,221,272
PROPERTY, PLANT AND EQUIPMENT, net	594,085	612,909
OPERATING LEASE RIGHT-OF-USE ASSETS	66,408	69,909
GOODWILL	1,450,935	1,472,446
INTANGIBLE ASSETS, net	805,794	870,588
DEFERRED INCOME TAXES	38,861	37,295
OTHER ASSETS	94,593	94,020
TOTAL ASSETS	$ 4,286,667	$ 4,378,439
LIABILITIES AND STOCKHOLDERS’ EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 155,515	$ 150,030
Accrued liabilities	299,751	268,215
Current portion of long-term debt	51,000	51,000
Income tax payable	4,141	7,714
Contingent earn-out liability	1,500	4,879
TOTAL CURRENT LIABILITIES	511,907	481,838
CONTINGENT EARN-OUT LIABILITY	3,947	3,991
LONG-TERM DEBT	1,554,822	1,577,770
OTHER LONG-TERM LIABILITIES	91,356	100,497
DEFERRED INCOME TAXES	53,794	55,873
INCOME TAX LIABILITY	33,029	35,060
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 — 24,430 shares at June 30, 2024 and 24,144 shares at December 31, 2023; and outstanding — 24,425 shares at June 30, 2024 and 24,141 shares at December 31, 2023	2,443	2,414
Additional paid-in capital	1,380,703	1,366,493
Treasury stock, at cost (5,128 and 2,428 shares, respectively)	(518)	(262)
Retained earnings	746,969	807,846
Accumulated other comprehensive loss	(91,785)	(53,081)
TOTAL STOCKHOLDERS' EQUITY	2,037,812	2,123,410
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 4,286,667	$ 4,378,439

(1) December 31, 2023 balances were derived from audited consolidated financial statements.

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

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

	Three months ended June 30,		Six months ended June 30,	
	2024	**2023**	**2024**	**2023**
TOTAL REVENUES	$ 596,455	$ 549,310	$ 1,163,110	$ 1,117,959
COST OF GOODS SOLD	389,027	356,983	770,438	733,591
GROSS PROFIT	207,428	192,327	392,672	384,368
OPERATING EXPENSES:				
Selling, general and administrative	159,549	150,895	317,206	303,467
Research and development	23,390	22,302	45,232	42,063
Restructuring, strategic transaction and integration	17,136	12,354	33,241	23,367
Change in fair value of contingent earn-out	(339)	4,016	(44)	3,316
TOTAL OPERATING EXPENSES	199,736	189,567	395,635	372,213
INCOME (LOSS) FROM OPERATIONS	7,692	2,760	(2,963)	12,155
INTEREST EXPENSE, NET	(23,841)	(24,121)	(47,613)	(46,636)
OTHER EXPENSE, NET	(3,384)	(1,502)	(5,725)	(1,771)
LOSS BEFORE INCOME TAXES	(19,533)	(22,863)	(56,301)	(36,252)
(PROVISION) BENEFIT FOR INCOME TAXES	(1,873)	12,929	(4,576)	16,506
NET LOSS	$ (21,406)	$ (9,934)	$ (60,877)	$ (19,746)
NET LOSS PER SHARE				
Basic	$ (0.88)	$ (0.41)	$ (2.51)	$ (0.82)
Diluted	$ (0.88)	$ (0.41)	$ (2.51)	$ (0.82)
WEIGHTED AVERAGE NUMBER OF SHARES				
Basic	24,393	24,075	24,295	24,045
Diluted	24,393	24,075	24,295	24,045

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

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

	Three months ended June 30,		Six months ended June 30,	
	2024	**2023**	**2024**	**2023**
NET LOSS	$ (21,406)	$ (9,934)	$ (60,877)	$ (19,746)
Other comprehensive (loss) income, net of tax:				
Cash flow hedge adjustments, net of tax of $(2,054) and $1,687 for the three months ended June 30, 2024 and 2023, respectively, and $(25) and $(57) for the six months ended June 30, 2024 and 2023, respectively.	(6,382)	5,274	(22)	(303)
Foreign currency translation adjustment, net of tax of $0 for all periods	(15,865)	7,569	(38,682)	32,552
Other adjustments, net of tax of $0 for all periods	—	(34)	—	(65)
Other comprehensive (loss) income, net of tax	(22,247)	12,809	(38,704)	32,184
COMPREHENSIVE (LOSS) INCOME	$ (43,653)	$ 2,875	$ (99,581)	$ 12,438

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		Additional Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	Shares	Amount					
Balance, January 1, 2024	**24,144**	**$ 2,414**	**$ 1,366,493**	**$ (262)**	**$ 807,846**	**$ (53,081)**	**$ 2,123,410**
Issuance of restricted stock and exercise of stock options	378	27	(6,847)	6,970	—	—	150
Tax withholding payments related to net share settlement of equity awards	(110)	—	—	(11,400)	—	—	(11,400)
Stock compensation	—	—	11,598	—	—	—	11,598
Other comprehensive loss, net of tax	—	—	—	—	—	(16,457)	(16,457)
Net loss	—	—	—	—	(39,471)	—	(39,471)
Balance, March 31, 2024	**24,412**	**$ 2,441**	**$ 1,371,244**	**$ (4,692)**	**$ 768,375**	**$ (69,538)**	**$ 2,067,830**
Issuance of restricted stock and exercise of stock options	21	2	(1,537)	4,459	—	—	2,924
Tax withholding payments related to net share settlement of equity awards	(3)	—	—	(285)	—	—	(285)
Stock compensation	—	—	10,998	—	—	—	10,998
Other comprehensive loss, net of tax	—	—	(2)	—	—	(22,247)	(22,249)
Net loss	—	—	—	—	(21,406)	—	(21,406)
Balance, June 30, 2024	**24,430**	**$ 2,443**	**$ 1,380,703**	**$ (518)**	**$ 746,969**	**$ (91,785)**	**$ 2,037,812**

	Common Stock		Additional Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	Shares	Amount					
Balance, January 1, 2023	**23,995**	**$ 2,399**	**$ 1,331,249**	**$ (243)**	**$ 837,501**	**$ (80,978)**	**$ 2,089,928**
Issuance of restricted stock and exercise of stock options	172	12	(503)	662	—	—	171
Tax withholding payments related to net share settlement of equity awards	(53)	—	—	(8,425)	—	—	(8,425)
Stock compensation	—	—	9,158	—	—	—	9,158
Other comprehensive income, net of tax	—	—	4	—	—	19,375	19,379
Net loss	—	—	—	—	(9,812)	—	(9,812)
Balance, March 31, 2023	**24,114**	**$ 2,411**	**$ 1,339,908**	**$ (8,006)**	**$ 827,689**	**$ (61,603)**	**$ 2,100,399**
Issuance of restricted stock and exercise of stock options	2	—	(4,626)	6,688	—	—	2,062
Tax withholding payments related to net share settlement of equity awards	(2)	—	—	(293)	—	—	(293)
Stock compensation	—	—	9,773	—	—	—	9,773
Other comprehensive income, net of tax	—	—	2	—	—	12,809	12,811
Net loss	—	—	—	—	(9,934)	—	(9,934)
Balance, June 30, 2023	**24,114**	**$ 2,411**	**$ 1,345,057**	**$ (1,611)**	**$ 817,755**	**$ (48,794)**	**$ 2,114,818**

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

	Six months ended June 30, 2024	Six months ended June 30, 2023
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (60,877)	$ (19,746)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	110,844	113,244
Noncash lease expense	10,524	11,110
Provision for doubtful accounts	1,370	399
Provision for warranty, returns and field action	(2,458)	7,070
Stock compensation	22,596	18,931
(Gain) loss on disposal of property, plant and equipment and other assets	(78)	1,019
Debt issuance costs amortization	3,411	3,404
Change in fair value of contingent earn-out liability	(44)	3,316
Usage of spare parts	8,944	10,056
Other	4,925	2,917
Changes in operating assets and liabilities, net of amounts acquired:		
Accounts receivable	6,715	46,796
Inventories	21,095	(76,040)
Prepaid expenses and other current assets	(12,638)	2,983
Other assets	(11,124)	(12,698)
Accounts payable	9,432	(46,864)
Accrued liabilities	20,245	(104)
Income taxes, including excess tax benefits and deferred income taxes	(5,138)	(26,022)
Net cash provided by operating activities	127,744	39,771
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(35,382)	(32,489)
Proceeds from sale of assets	692	1,431
Intangible asset additions	(5,364)	(4,651)
Proceeds from sale and maturities of investment securities	500	2,920
Net cash used in investing activities	(39,554)	(32,789)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal repayments of long-term debt	(25,500)	(14,813)
Proceeds from exercise of stock options	3,074	2,233
Payments on finance leases	(518)	(436)
Payments of contingent earn-out liability	(2,600)	—
Tax withholding payments related to net share settlement of equity awards	(11,685)	(8,718)
Net cash used in financing activities	(37,229)	(21,734)
Effect of exchange rate changes on cash	(2,535)	1,855
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	48,426	(12,897)
CASH AND CASH EQUIVALENTS, beginning of period	254,222	208,784
CASH AND CASH EQUIVALENTS, end of period	$ 302,648	$ 195,887

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)

	Six months ended June 30,	
	2024	2023
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES:		
Purchases of property, plant, and equipment in accounts payable	$ 3,868	$ 2,362

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 of ICU Medical, Inc., ("ICU" or the "Company"), a Delaware corporation, 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 for the year ended December 31, 2023.

We develop, manufacture and sell innovative medical products used in infusion therapy, vascular access, and vital care applications. ICU's product portfolio includes ambulatory, syringe, and large volume IV pumps and safety software; dedicated and non-dedicated IV sets, needlefree IV connectors, peripheral IV catheters, and sterile IV solutions; closed system transfer devices and pharmacy compounding systems; as well as a range of respiratory, anesthesia, patient monitoring, and temperature management products. We sell the majority of our products globally through our direct sales force and through independent distributors throughout the U.S. and internationally. We also sell certain 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 the prior year cash flows from operating activities within the condensed consolidated statements of cash flows to conform to the presentation used in the current year. We reclassified bond premium amortization to other. The reclassification had no impact on cash flows from operating activities as previously reported.

Note 2: New Accounting Pronouncements

Recently Issued Accounting Standards

In October 2023, the FASB issued ASU 2023-06, Disclosure Improvements - Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative. The amendments in this update modify the disclosure or presentation requirements of a variety of Topics in the Accounting Standards Codification ("ASC") in response to the SEC's Release No. 33-10532, Disclosure Update and Simplification Initiative, and align the ASC's requirements with the SEC's regulations. For entities within the scope, the guidance will be applied prospectively with the effective date for each amendment to be the date on which the SEC's removal of that related disclosure from Regulation S-X or Regulation S-K becomes effective, with early adoption prohibited. If the SEC has not removed the related disclosure from its regulations by June 30, 2027, the amendments will be removed from the Codification and will not become effective. We are currently assessing what impact this guidance will have on the Company's consolidated financial statements and related disclosures.

In November 2023, the FASB issued ASU 2023-07, Segment Reporting (Topic 280) - Improvements to Reportable Segment Disclosures. The amendments in this update expand disclosures about a public entity's reportable segments and requires more enhanced information about a reportable segment's significant expenses, interim segment profit or loss, and a description of how a public entity's chief operating decision maker uses reported segment profit or loss information in assessing segment performance and allocating resources. The amendments clarify that a single reportable segment entity must apply ASC 280 in its entirety. The update will be effective for annual periods beginning after December 15, 2023, and for interim periods within fiscal years beginning after December 15, 2024. This ASU is applicable to our Annual Report on Form 10-K for the fiscal year ended December 31, 2024, and subsequent interim periods, with early application permitted. We are currently assessing the effect of this update on our consolidated financial statements and related disclosures.

In December 2023, the FASB issued ASU 2023-09, Income Taxes (Topic 740) - Improvements to Income Tax Disclosures. The amendments in this update expand disclosures in an entity's income tax rate reconciliation table and regarding cash taxes paid information. The update will be effective for annual periods beginning after December 15, 2024 and is applicable to our Annual Report on Form 10-K for the fiscal year December 31, 2025, with early application permitted. We are currently assessing the effect of this update on our consolidated financial statements and related disclosures.

Note 3: Restructuring, Strategic Transaction and Integration

Restructuring, strategic transaction and integration expenses were $17.1 million and $33.2 million for the three and six months ended June 30, 2024, respectively, as compared to $12.4 million and $23.4 million for the three and six months ended June 30, 2023, respectively.

Restructuring

During the three and six months ended June 30, 2024, restructuring charges were $7.7 million and $13.0 million, respectively, as compared to $1.3 million and $4.0 million respectively, for the three and six months ended June 30, 2023 and were primarily related to severance costs for the periods. The restructuring charges for the six months ended June 30, 2023 is net of $0.9 million related to facility closures costs and severance costs that were reversed during the first fiscal quarter of 2023.

The following table summarizes the activity in our restructuring-related accrual by major type of cost for the six months ended June 30, 2024 (in thousands):

	Severance Pay and Benefits	Retention and Facility Closure Costs	Total
Accrued balance, January 1, 2024	$ 2,811	$ 757	$ 3,568
Charges incurred	5,065	295	5,360
Payments	(2,760)	(184)	(2,944)
Other[1]	(41)	—	(41)
Currency translation	(13)	(7)	(20)
Accrued balance, March 31, 2024	$ 5,062	$ 861	$ 5,923
Charges incurred	7,712	—	7,712
Payments	(3,678)	—	(3,678)
Currency translation	(33)	—	(33)
Accrued balance, June 30, 2024	$ 9,063	$ 861	$ 9,924

[1] Relates to prior year accrued restructuring charges for estimated severances costs that will not be utilized and were reversed during the three months ended March 31, 2024.

Strategic Transaction and Integration Expenses

We incurred and expensed $9.4 million and $20.2 million in strategic transaction and integration expenses during the three and six months ended June 30, 2024, respectively, as compared to $11.1 million and $19.4 million in strategic transaction and integration expenses during the three and six months ended June 30, 2023, respectively, which are included in restructuring, strategic transaction and integration expenses in our condensed consolidated statements of operations. The strategic transaction and integration expenses during the three and six months ended June 30, 2024 and 2023 were primarily related to consulting expenses and employee costs incurred to integrate our Smiths Medical business acquired in 2022.

Related-party Transition Services Expenses

Smiths Group plc ("Smiths") became a related party to us when we issued 2.5 million shares of our common stock as partial consideration to Smiths for the acquisition of Smiths Medical 2020 Limited ("Smiths Medical"). Additionally, we entered into a transition services agreement ("TSA") with certain Smiths legal entities. The TSA included certain information technology, human resource and tax support services for an initial term of twelve months with the option to extend up to 24 months. During the three and six months ended June 30, 2023, we expensed $3.9 million and $7.9 million, respectively, for services provided by Smiths under the TSA. Since December 31, 2023, there were no services being provided under the TSA and we had no remaining related-party open payables as of December 31, 2023.

Note 4: Revenue

Revenue Recognition

Our business units are Consumables, Infusion Systems and Vital Care. The vast majority of our sales of products within these business units 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. Our software license renewals are considered to be transferred to a customer at a point in time at the start of each renewal period, therefore revenue is recognized at that time.

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 include variable consideration in net sales only to the extent that a significant reversal in revenue is not probable when the uncertainty is resolved. Our variable consideration includes distributor chargebacks, product returns and end customer rebates with distributor chargebacks representing the majority and subject to the greatest judgment.

Chargebacks are the difference between the prices we charge our distribution customers at the time they purchase our products and the contracted prices we have with the end customer, most often in the U.S. and Canada. When a distributor sells our products to one of our contracted end customers, the distributor typically will claim a refund from us for the chargeback amount which we process as a credit to the distributor.

In estimating the transaction price to present as net revenue for sales to distributors, we must estimate the expected chargeback amount that we will refund to the distributor after they sell our product to a contracted end customer. Determining the appropriate chargeback reserve requires judgment around the following assumptions:

(i) The estimated chargeback amount (the difference between the price we invoice the distributor and the contractually agreed price with specified end customers); and

(ii) The estimated period of time between the sale to the distributor and the receipt of a chargeback claim.

For purposes of estimating the expected chargeback amount, we utilize actual recent historical chargebacks paid to the specific distributor for similar products as determined at either a product or product-family level. While individual chargeback rates can vary significantly depending on the product and contracted prices with distributors and end customers, our chargeback reserve estimate is not overly sensitive to those individual price changes due to the long-term nature of our distributor and end customer contracts as well as consistency in purchasing patterns. Additionally, the use of the actual chargeback history to calculate an average chargeback rate has historically resulted in a reasonable estimation of overall current contract rates.

For purposes of estimating the period of time between the sale to the distributor and the receipt of a chargeback claim, we utilize several sources of information including actual inventory quantities of our products on hand at distributors. This inventory on hand information is received from the distributors or, when specific quantities are not provided, estimated by using the targeted days of inventory on hand for distributors. Historical experience of actual chargebacks paid has indicated that use of this information has reasonable predictive value of outstanding chargebacks and accounts for the variability of purchasing patterns and expected timing and volume of sales to end customers. The value of the chargeback reserve generally represents approximately two months of obligation due to the timing difference between the initial sale to a distributor and the processing of a chargeback claim after the product is sold to the end customer.

The chargeback reserve estimates change from period-to-period primarily based on changes in revenue from/and the inventory levels of distributors. Our judgments regarding the information used to calculate the chargeback reserve are consistent from period to period; however, on a regular basis, we evaluate the adequacy of the chargeback reserve to reassess and ensure that the variable consideration is appropriately constrained, and the likelihood of future revenue reversal is not probable. We use metrics including chargeback provision as a percentage of gross revenue, movements in inventory on hand at distributors, trends in accrued versus paid chargebacks and impacts from price changes and similar metrics.

The chargeback reserve reflects a reasonable estimate of the amount of consideration using the expected value method and is recorded as a reduction of accounts receivable, net on the consolidated balance sheets.

We also offer certain volume-based rebates to both our distribution and end customers, which is recorded 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, including current contractual requirements, our historical experience with each customer and forecasted customer purchasing patterns, to estimate the most likely rebate amount.

We also warrant products against defects and have a policy permitting the return of defective products, for which we accrue and expense at the time of sale using information available 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 stand-alone selling price, and recognize revenue over the period the warranty service is provided.

Arrangements with Multiple Performance Obligations

We also enter into arrangements which include multiple performance obligations. The most significant judgments related to these arrangements include:

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

Revenue Disaggregated

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

	Three months ended June 30,		Six months ended June 30,	
Product line	**2024**	**2023**	**2024**	**2023**
Consumables	$ 261,816	236,976	505,855	473,098
Infusion Systems	163,638	153,142	320,976	314,855
Vital Care	171,001	159,192	336,279	330,006
Total Revenues	$ 596,455	$ 549,310	$ 1,163,110	$ 1,117,959

For the three and six months ended June 30, 2024 and 2023, net sales to Medline made up approximately 17% and 15% of total revenues, respectively.

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

	Three months ended June 30,		Six months ended June 30,	
Geography	**2024**	**2023**	**2024**	**2023**
United States	$ 383,140	$ 347,866	$ 749,295	$ 707,053
Europe, the Middle East and Africa	95,310	89,994	193,699	188,980
APAC	61,224	60,031	113,077	118,655
Other Foreign	56,781	51,419	107,039	103,271
Total Revenues	$ 596,455	$ 549,310	$ 1,163,110	$ 1,117,959

Contract Balances

The following table presents the changes in our contract balances for the six months ended June 30, 2024 and 2023 (in thousands):

		Contract Liabilities
Beginning balance, January 1, 2024	$	(42,177)
Equipment revenue recognized		16,951
Equipment revenue deferred due to implementation		(20,593)
Software revenue recognized		10,232
Software revenue deferred due to implementation		(10,427)
Government grant income recognized[1]		1,029
Government grant income deferred		—
Other deferred revenue		(423)
Other deferred revenue recognized		1,602
Ending balance, June 30, 2024	$	(43,806)
Beginning balance, January 1, 2023	$	(45,866)
Equipment revenue recognized		16,793
Equipment revenue deferred due to implementation		(16,625)
Software revenue recognized		9,041
Software revenue deferred due to implementation		(8,875)
Government grant income deferred		(944)
Government grant income recognized[1]		647
Other deferred revenue		(688)
Other deferred revenue recognized		3,514
Ending balance, June 30, 2023	$	(43,003)

[1] The government grant income deferred is amortized over the life of the related depreciable asset as a reduction to depreciation expense.

Our contract liabilities are included in accrued liabilities or other long-term liabilities in our condensed consolidated balance sheet based on the expected timing of revenue recognition.

As of June 30, 2024, revenue from remaining performance obligations is as follows:

	Recognition Timing	
(in thousands)	< 12 Months	> 12 Months
Equipment deferred revenue	$ (21,226)	$ (937)
Software deferred revenue	(9,783)	(489)
Government grant deferred income[1]	(2,065)	(8,384)
Other deferred revenue[2]	(717)	(205)
Total	$ (33,791)	$ (10,015)

[1] The government grant deferred income is amortized over the life of the related depreciable asset as a reduction to depreciation expense.

[2] Other deferred revenue includes pump development programs, purchased training and extended warranty.

Note 5: Leases

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

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

Our leases are for corporate, research and development and sales and support offices, manufacturing and distribution facilities, 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 because we determined the exercise of options to extend is not reasonably certain.

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

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Operating lease cost	$ 5,638	$ 6,043	$ 11,452	$ 12,193
Finance lease cost — interest	47	31	80	60
Finance lease cost — reduction of ROU asset	301	254	555	479
Short-term lease cost	—	13	—	26
Total lease cost	$ 5,986	$ 6,341	$ 12,087	$ 12,758

Interest expense on our finance leases is included in interest expense, net in our condensed consolidated statements of operations. The reduction of the operating and finance ROU assets is included as noncash lease expense in costs of goods sold and selling, general and administrative expenses in our condensed consolidated statements of operations.

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

	Six months ended June 30,	
	2024	2023
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 11,730	$ 12,336
Operating cash flows from finance leases	$ 80	$ 60
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	$ 8,650	$ 10,153
Finance leases	$ 1,202	$ 804

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

	As of	
	June 30, 2024	December 31, 2023
Operating leases		
Operating lease right-of-use assets	$ 66,408	$ 69,909
Accrued liabilities	$ 17,915	$ 20,161
Other long-term liabilities	52,179	52,972
Total operating lease liabilities	$ 70,094	$ 73,133
Weighted-Average Remaining Lease Term		
Operating leases	5.6 years	5.6 years
Weighted-Average Discount Rate		
Operating leases	4.64 %	4.31 %

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

	As of	
	June 30, 2024	December 31, 2023
Finance leases		
Finance lease right-of-use assets	$ 3,273	$ 2,707
Accrued liabilities	$ 998	$ 860
Other long-term liabilities	2,397	1,954
Total finance lease liabilities	$ 3,395	$ 2,814
Weighted-Average Remaining Lease Term		
Finance leases	4.0 years	4.1 years
Weighted-Average Discount Rate		
Finance leases	5.50 %	4.93 %

As of June 30, 2024, the maturities of our operating and finance lease liabilities for each of the next five years and thereafter are approximately (in thousands):

	Operating Leases	Finance Leases
Remainder of 2024	$ 11,439	$ 530
2025	18,076	1,086
2026	15,747	965
2027	11,226	627
2028	6,571	305
2029	6,793	194
Thereafter	9,196	48
Total Lease Payments	79,048	3,755
Less imputed interest	(8,954)	(360)
Total	$ 70,094	$ 3,395

Note 6: Net Loss Per Share

Basic earnings per share is computed by dividing net loss by the weighted-average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net loss 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. A net loss for the three and six months ended June 30, 2024 and 2023, causes all of the potentially dilutive common shares to be antidilutive, and accordingly, they were not included in the computation of diluted earnings per share and basic and diluted net loss per share are equal for each of these periods.

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 June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Net loss	$ (21,406)	$ (9,934)	$ (60,877)	$ (19,746)
Weighted-average number of common shares outstanding (basic)	24,393	24,075	24,295	24,045
Dilutive securities[1]	—	—	—	—
Weighted-average common and common equivalent shares outstanding (diluted)	24,393	24,075	24,295	24,045
EPS — basic	$ (0.88)	$ (0.41)	$ (2.51)	$ (0.82)
EPS — diluted	$ (0.88)	$ (0.41)	$ (2.51)	$ (0.82)
Total anti-dilutive stock options and restricted stock awards	216	162	202	72

[1] Due to the net loss for the three and six months ended June 30, 2024 and 2023, there are no potentially dilutive common shares included in the computation of diluted earnings per share.

Note 7: Derivatives and Hedging Activities

Hedge Accounting and Hedging Program

The purposes of our cash flow hedging programs are to manage the foreign currency exchange rate risk on forecasted revenues and expenses denominated in currencies other than the functional currency of the operating unit, and to manage floating interest rate risk associated with future interest payments on the variable-rate term loans issued in 2022. 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 derivative instruments we utilize, including various foreign exchange contracts and interest rate swaps, are designated and qualify as cash flow hedges. 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 gains or losses from changes in the fair values of the derivative instruments as a component of other comprehensive (loss) income and we reclassify those gains or losses into earnings in the same line item associated with the forecasted transaction and in the same period during which the hedged transaction affects earnings. If the underlying forecasted transaction does not occur, or it becomes probable that it will not occur, we reclassify the gain or loss on the related derivative instrument from accumulated other comprehensive loss into earnings immediately.

Foreign Currency Exchange Rate Risk

Foreign Exchange Forward Contracts

We enter into foreign exchange forward contracts to hedge a portion of our forecasted foreign currency-denominated revenues and expenses to minimize the effect of foreign exchange rate movements on the related cash flows. These contracts are agreements to buy or sell a quantity of a currency at a predetermined future date and at a predetermined exchange rate. Our foreign exchange forward contracts hedge exposures principally denominated in Mexican Pesos ("MXN"), Euros, Czech Koruna ("CZK"), Japanese Yen ("JPY"), Swedish Krona ("SEK"), Danish Krone ("DKK"), Chinese Renminbi ("CNH"), Canadian Dollar ("CAD"), U.S. Dollar ("USD") and Australian Dollar ("AUD") and have varying maturities with an average term of approximately thirteen months. The total notional amount of these outstanding derivative contracts as of June 30, 2024 was $100.9 million, which included the notional equivalent of $20.6 million in Euros, $9.3 million in JPY, $4.9 million in CNH, $12.7 million in CAD, $10.0 million in AUD, $33.9 million in USD and $9.5 million in other foreign currencies, with terms currently through November 2025.

Floating Interest Rate Risk

In 2022, we entered into interest rate swaps to reduce the interest rate volatility on our variable-rate term loan A and variable-rate term loan B (see Note 16: Long-Term Debt). We exchange, at specified intervals, the difference between fixed and floating interest amounts calculated by reference to an agreed-upon notional amount. Effective March 30, 2022, the term loan A swap, as amended, has an initial notional amount of $300.0 million, reducing to $150.0 million evenly on a quarterly basis excluding its final maturity on March 30, 2027. We pay a fixed rate of 1.32% and will receive the greater of 3-months USD Secured Overnight Financing Rate ("SOFR") or (0.15)%. The total notional amount of this outstanding derivative as of June 30, 2024 was approximately $228.9 million. Effective March 30, 2022, the term loan B swap, as amended, has an initial notional amount of $750.0 million, reducing to $46.9 million evenly on a quarterly basis through its final maturity on March 30, 2026. We pay a fixed rate of 1.17% and will receive the greater of 3-months USD SOFR or 0.35%. The total notional amount of this outstanding derivative as of June 30, 2024 was approximately $328.1 million.

In June 2023, we entered into an additional interest rate swap that hedges both term loan A and term loan B interest payments. The total notional amount of the swap is $300.0 million. The hedge matures on June 30, 2028. We pay a fixed rate of 3.88% and will receive 3-months USD SOFR.

These swaps effectively convert the relevant portion of the floating-rate term loans to fixed rates.

The following table presents the fair values of our derivative instruments included within the Condensed Consolidated Balance Sheets (in thousands):

	Derivatives Designated as Cash Flow Hedging Instruments		
Condensed Consolidated Balance Sheet Location	**Foreign Exchange Contracts**	**Interest Rate Swaps**	**Gross Derivatives**
As of June 30, 2024			
Prepaid expenses and other current assets	$ 3,623	$ 21,006	$ 24,629
Other assets	99	9,584	9,683
Total assets	$ 3,722	$ 30,590	$ 34,312
Accrued liabilities	$ 1,473	$ —	$ 1,473
Other long-term liabilities	314	—	314
Total liabilities	$ 1,787	$ —	$ 1,787
As of December 31, 2023			
Prepaid expenses and other current assets	$ 6,785	$ 23,065	$ 29,850
Other assets	673	4,876	5,549
Total assets	$ 7,458	$ 27,941	$ 35,399
Accrued liabilities	$ 2,590	$ —	$ 2,590
Other long-term liabilities	240	—	240
Total liabilities	$ 2,830	$ —	$ 2,830

We recognized the following (loss) gains on our derivative instruments designated as cash flow hedges in other comprehensive income before reclassifications to net loss (in thousands):

	Gain (Losses) Recognized in Other Comprehensive Income			
	Three months ended June 30,		Six months ended June 30,	
	2024	**2023**	**2024**	**2023**
Derivatives designated as cash flow hedging instruments:				
Foreign exchange forward contracts	$ (3,965)	$ 6,051	$ 975	$ 8,503
Interest rate swaps	4,512	11,324	17,905	8,740
Total derivatives designated as cash flow hedging instruments	$ 547	$ 17,375	$ 18,880	$ 17,243

The following table presents the effects of our derivative instruments designated as cash flow hedges on the Condensed Consolidated Statements of Operations (in thousands):

	Gains (Losses) Reclassified From Accumulated Other Comprehensive (Loss) Income into Net Loss				
		Three months ended June 30,		Six months ended June 30,	
	Location of Gains (Losses) Recognized in Net Loss	2024	2023	2024	2023
Derivatives designated as cash flow hedging instruments:					
Foreign exchange forward contracts	Total revenues	$ 633	$ 473	$ 1,333	$ (1,
Foreign exchange forward contracts	Cost of goods sold	1,059	2,316	2,339	3,
Foreign exchange forward contracts	Other expense, net (1)	—	—	—	
Foreign exchange forward contracts	Interest expense (2)	—	—	—	
Interest rate swaps	Interest expense	7,291	7,625	15,255	14,
Total derivatives designated as cash flow hedging instruments		$ 8,983	$ 10,414	$ 18,927	$ 17,

(1) Represents location of gain reclassified from accumulated other comprehensive loss into other expense, net as a result of ineffectiveness.
(2) Represents location of gain reclassified from accumulated other comprehensive loss into interest expense as a result of forecasted transactions no longer probable of occurring.

As of June 30, 2024, we expect an estimated $2.1 million in deferred gains on the outstanding foreign exchange contracts and an estimated $21.9 million in deferred gains on the interest rate swaps will be reclassified from accumulated other comprehensive loss to net income during the next 12 months concurrent with the underlying hedged transactions also being reported in net income.

Note 8: Fair Value Measurements

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.

Contingent Earn-out Liabilities

In 2022, we acquired Smiths Medical with a combination of cash consideration and share consideration issued at closing. Total consideration for the acquisition included a potential earn-out payment of $100.0 million in cash contingent on our common stock achieving a certain volume-weighted average price (the "Price Targets") from the closing date to either the third or fourth anniversary of closing and provided Smiths beneficially owns at least 50.0% of the shares of common stock issued at closing at the time the Price Target is achieved. The initial estimated fair value of the earn-out was determined to be $53.5 million. The initial fair value of the earn-out was determined using a Monte Carlo simulation model. The model utilized several assumptions including volatility and the risk-free interest rate. The assumed volatility is based on the average of the historical volatility of our common stock price and the implied volatility of certain at-the-money traded options. The risk-free interest rate is equal to the yield on U.S. Treasury securities at constant maturity for the period commensurate with the term of the earn-out. At each reporting date subsequent to the acquisition, we remeasure the earn-out liability and recognize any changes in its fair value in our consolidated statements of operations. If the probability of achieving the Price Targets during their respective measurement periods is significantly greater than initially anticipated, the realization of an additional liability and related expense will have a significant impact on our consolidated financial statements in the period recognized. As of December 31, 2023, the estimated fair value of the contingent earn-out was $4.0 million. As of June 30, 2024, the estimated fair value of the contingent earn-out was $3.9 million. During July 2024, Smiths sold 1.2 million common shares of ICU Medical, Inc. It was issued as partial consideration for the 2022 acquisition of Smiths Medical. The sale of shares when combined with other sales in prior periods renders Smiths unable to achieve the contingent consideration based on certain price targets during the third and fourth anniversary of closing as Smiths no longer meets the required minimum beneficial ownership percentage. Accordingly, the third quarter 2024 valuation of the contingent earn-out will reduce the contingent earn-out's fair market value to zero.

In November 2021, we acquired a small foreign infusion systems supplier. Total consideration for the acquisition included a potential earn-out payment of up to $2.5 million, consisting of (i) a cash payment of $1.0 million contingent on the achievement of certain revenue targets for the annual period ended December 31, 2022 and, separately, (ii) a cash payment of $1.5 million contingent upon obtaining certain product-related regulatory certifications. As of December 31, 2022, the measurement period related to the contingent earn-out based on certain revenue targets ended and based on the actual revenue achieved during the measurement period the fair value of the contingent earn-out was determined to be zero as the minimum threshold for earning the earn-out was not met. As of June 30, 2024, the estimated fair value of the contingent consideration related to certain product-related regulatory certifications was estimated to be $1.5 million.

In August 2021, we entered into an agreement with one of our international distributors whereby that distributor would not compete with us in a specific territory for a three-year period that ends September 2024. The terms of the agreement included a contingent earn-out payment. The contingent earn-out payment could not exceed $6.0 million and was to be earned based on certain revenue targets over a twelve-month measurement period determined by the highest four consecutive quarters commencing over a two-year period starting on the closing date of the agreement and provided that the distributor is in compliance with its obligations under the agreement. As of December 31, 2023, the fair value of the contingent earn-out was determined to be $3.4 million and was paid out during the three months ended March 31, 2024.

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

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

	Earn-out Liability
Accrued balance, January 1, 2024	$ 5,491
Change in fair value of earn-out (included in income from operations as a separate line item)[1]	295
Accrued balance, March 31, 2024	5,786
Change in fair value of earn-out (included in income from operations as a separate line item)[1]	(339)
Accrued balance, June 30, 2024	$ 5,447

	Earn-out Liability
Accrued balance, January 1, 2023	$ 25,572
Change in fair value of earn-out (included in income from operations as a separate line item)[1]	(700)
Currency translation	33
Accrued balance, March 31, 2023	24,905
Change in fair value of earn-out (included in income from operations as a separate line item)[1]	4,016
Other	11
Currency translation	1
Accrued balance, June 30, 2023	$ 28,933

[1] Relates to the change in fair value of our Smiths Medical earn-out.

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

Smiths Medical Earn-out Liability

Simulation Input	As of June 30, 2024	As of December 31, 2023
Volatility	45.00 %	47.00 %
Risk-Free Rate	4.83 %	4.18 %

Investments, Foreign Exchange Contracts and Interest Rate Contracts

As of June 30, 2024, we do not have any investment securities. Our investments historically consisted of corporate, government bonds and U.S. treasury securities. The fair value of our corporate and government bonds were estimated using observable market-based inputs such as quoted prices, interest rates and yield curves or Level 2 inputs. The fair value of our U.S. treasury securities were based on quoted market prices in active markets and are included in the Level 1 fair value hierarchy.

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

The fair value of our Level 2 interest rate swaps is estimated using a pricing model that reflects the terms of the contracts, including the period to maturity, and relies on observable market inputs such as known notional value amounts and USD interest rate curves.

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 as of June 30, 2024			
	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:				
Foreign exchange contracts:				
Prepaid expenses and other current assets	$ 3,623	$ —	$ 3,623	$ —
Other assets	99	—	99	—
Interest rate contracts:				
Prepaid expenses and other current assets	21,006	—	21,006	—
Other assets	9,584	—	9,584	—
Total Assets	$ 34,312	$ —	$ 34,312	$ —
Liabilities:				
Contingent earn-out liability - ST	$ 1,500	$ —	$ —	$ 1,500
Contingent earn-out liability - LT	3,947	—	—	$ 3,947
Foreign exchange contracts:				
Accrued liabilities	1,473	—	1,473	—
Other long-term liabilities	314	—	314	—
Total Liabilities	$ 7,234	$ —	$ 1,787	$ 5,447

	Fair value measurements as of December 31, 2023			
	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 debt securities:				
Short-term corporate bonds	$ 501	$ —	$ 501	$ —
Foreign exchange forwards:				
Prepaid expenses and other current assets	6,785	—	6,785	—
Other assets	673	—	673	—
Interest rate contracts:				
Prepaid expenses and other current assets	23,065	—	23,065	—
Other assets	4,876	—	4,876	—
Total Assets	$ 35,900	$ —	$ 35,900	$ —
Liabilities:				
Contingent earn-out liability - ST	$ 4,879	$ —	$ 3,379	$ 1,500
Contingent earn-out liability - LT	3,991	—	—	3,991
Foreign exchange contracts:				
Accrued liabilities	2,590	—	2,590	—
Other long-term liabilities	240	—	240	—
Total Liabilities	$ 11,700	$ —	$ 6,209	$ 5,491

Note 9: Investment Securities

Investments in Available-for-sale Securities

Our available-for-sale investment securities historically consisted of corporate bonds, government bonds and U.S. treasury securities and were considered "investment grade" and were carried at fair value.

As of June 30, 2024, we did not have any investment securities. As of December 31, 2023, the amortized cost, unrealized holding gains (losses) and fair value of our available-for-sale investment securities were as follows (in thousands):

	As of December 31, 2023		
	Amortized Cost	Unrealized Holding Gains (Losses)	Fair Value
Short-term corporate bonds	$ 501	$ —	$ 501

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 interest expense, net in our condensed consolidated statements of operations.

We assess our investment in available-for-sale debt securities for impairment each reporting period. If an unrealized loss exists, we determine whether any portion of the decline in fair value below the amortized cost basis is credit-related by reviewing several factors, including, but not limited to, the extent of the fair value decline and changes in the financial condition of the issuer. We record an impairment for credit-related losses through an allowance, limited to the amount of the unrealized loss. If we either intend to sell or it is more likely than not we will be required to sell the debt security before its anticipated recovery, any allowance is written off and the amortized cost basis is written down to fair value through a charge against net earnings. Unrealized gains and non-credit-related unrealized losses are recorded, net of tax, in other comprehensive (loss) income. We did not have any investments in available-for-sale debt securities in unrealized loss positions as of December 31, 2023.

Realized gains and losses are accounted for on the specific identification method. There have been no realized gains or losses on the disposal of these investments. All short-term investment securities are callable within one year.

Investments in Non-Marketable Equity Securities

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

We apply the equity method of accounting for investments when we determine we have a significant influence, but not a controlling interest in the investee. We determine whether we have significant influence by considering key factors such as ownership interest, representation on the board of directors, participation in policy making decisions, business relationship and material intra-entity transactions, among other factors. Our equity method investment is reported at cost and adjusted each period for our share of the investee's income or (loss) and dividend paid, if any. We eliminate any intra-entity profits to the extent of our beneficial interest. We report our proportionate share of the investee's income or (loss) resulting from this investment in other income, net in our condensed consolidated statements of operations. The carrying value of our equity method investment is reported in other assets on our condensed consolidated balance sheets (see Note 10: Prepaid Expenses and Other Current Assets and Other Assets). We assess our equity method investments for impairment on an annual basis or whenever events or circumstances indicate that the carrying value of the investment may not be recoverable. Our recorded share of the investee's loss was not material for the three and six months ended June 30, 2024 and 2023. We did not receive any dividend distributions from this investment during the three and six months ended June 30, 2024 and 2023.

Our non-marketable equity method investment consists of the following (in thousands):

	As of	
	June 30, 2024	**December 31, 2023**
Equity method investment	$ 3,091	$ 3,120

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

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

	As of	
	June 30, 2024	December 31, 2023
Other prepaid expenses and receivables	$ 26,565	$ 17,833
Prepaid vendor expenses	1,220	1,309
Deferred costs	4,995	1,668
Prepaid insurance and property taxes	7,606	9,547
VAT/GST receivable	3,173	2,748
Deferred tax charge	6,622	5,822
Foreign exchange contracts	3,623	6,785
Interest rate contracts	21,006	23,065
Deposits	1,227	1,196
Other	4,788	3,667
	$ 80,825	$ 73,640

Other assets consist of the following (in thousands):

	As of	
	June 30, 2024	December 31, 2023
Pump lease receivables	$ 25,599	$ 30,627
Spare parts	48,792	46,496
Equity method investment	3,091	3,120
Deferred debt issuance costs	2,578	3,439
Finance lease right-of-use assets	3,273	2,707
Interest rate contracts	9,584	4,876
Other	1,676	2,755
	$ 94,593	$ 94,020

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 include material, labor and overhead related to the manufacturing of our products.

Inventories consist of the following (in thousands):

	As of	
	June 30, 2024	December 31, 2023
Raw materials	$ 285,347	$ 296,037
Work in process	82,882	58,906
Finished goods	314,641	354,417
Total inventories	$ 682,870	$ 709,360

Note 12: Property, Plant and Equipment

Property, plant and equipment consists of the following (in thousands):

	As of	
	June 30, 2024	December 31, 2023
Machinery and equipment	$ 495,081	$ 483,382
Land, building and building improvements	285,661	278,251
Molds	91,273	89,573
Computer equipment and software	125,020	122,038
Furniture and fixtures	30,601	30,662
Instruments placed with customers[1]	118,165	115,672
Construction in progress	112,126	117,219
Total property, plant and equipment, cost	1,257,927	1,236,797
Accumulated depreciation	(663,842)	(623,888)
Property, plant and equipment, net	$ 594,085	$ 612,909

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

Depreciation expense was $22.3 million and $44.7 million for the three and six months ended June 30, 2024, respectively, and $24.4 million and $47.8 million for the three and six months ended June 30, 2023, 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, 2024	$ 1,472,446
Currency translation	(21,511)
Balance as of June 30, 2024	$ 1,450,935

Intangible Assets, Net

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

	Weighted-Average Amortization Life in Years	June 30, 2024		
		Cost	Accumulated Amortization	Net
Patents	10	$ 34,840	$ 21,747	$ 13,093
Customer contracts	12	9,835	6,849	2,986
Non-contractual customer relationships	8	550,145	203,725	346,420
Trademarks	1	5,425	5,425	—
Trade name	15	18,248	7,762	10,486
Developed technology	10	587,153	197,000	390,153
Non-compete	3	9,100	8,550	550
Total amortized intangible assets		$ 1,214,746	$ 451,058	$ 763,688
Internally developed software[(1)]		$ 42,106		$ 42,106
Total intangible assets		$ 1,256,852	$ 451,058	$ 805,794

[(1)] 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, 2023		
		Cost	Accumulated Amortization	Net
Patents	10	$ 33,261	$ 20,637	$ 12,624
Customer contracts	12	10,018	6,755	3,263
Non-contractual customer relationships	8	554,982	171,279	383,703
Trademarks	1	5,425	5,425	—
Trade name	15	18,251	7,162	11,089
Developed technology	10	587,852	167,913	419,939
Non-compete	3	9,100	7,450	1,650
Total amortized intangible assets		$ 1,218,889	$ 386,621	$ 832,268
Internally developed software[(1)]		$ 38,320		$ 38,320
Total intangible assets		$ 1,257,209	$ 386,621	$ 870,588

[(1)] 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. Intangible asset amortization expense was $33.1 million and $66.2 million during the three and six months ended June 30, 2024, respectively, and $33.1 million and $65.4 million during the three and six months ended June 30, 2023, respectively.

As of June 30, 2024 estimated annual amortization for our intangible assets for each of the next five years and thereafter is approximately (in thousands):

Remainder of 2024	$	65,794
2025		124,722
2026		123,940
2027		113,862
2028		113,264
2029		110,181
Thereafter		111,925
Total	$	763,688

Note 14: Accrued Liabilities and Other Long-Term Liabilities

Accrued liabilities consist of the following (in thousands):

	As of			
	June 30, 2024		December 31, 2023	
Salaries and benefits	$	69,914	$	52,250
Incentive compensation		42,037		37,992
Operating lease liability-ST		17,915		20,161
Accrued sales taxes		5,545		6,748
Restructuring accrual		9,924		3,568
Deferred revenue		33,791		31,640
Accrued other taxes		5,390		3,024
Accrued professional fees		3,418		2,803
Italy medical device payback provision		23,613		23,176
Legal accrual		1,704		1,874
Distribution fees		16,522		13,049
Warranties and returns		3,600		3,682
Field service corrective action[1]		32,411		30,281
Accrued freight		15,764		17,215
Foreign exchange contracts		1,473		2,590
Accrued audit fees		4,626		5,492
Defined benefit plan		2,735		2,575
Accrued interest		1,409		1,431
Other		7,960		8,664
	$	299,751	$	268,215

[1] Primarily includes field service corrective actions associated with certain products in connection with a 2021 Warning Letter received by Smiths Medical from the FDA following an inspection of Smiths Medical's Oakdale, Minnesota Facility, see Note 18: Commitments and Contingencies for further detail.

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

	As of	
	June 30, 2024	December 31, 2023
Operating lease liability-LT	$ 52,179	$ 52,972
Benefits	3,932	4,207
Accrued rent	732	841
Finance lease liability-LT	2,397	1,954
Deferred revenue	10,015	10,585
Field service corrective action[1]	18,118	26,056
Other	3,983	3,882
	$ 91,356	$ 100,497

(1) Primarily related to field service corrective actions associated with certain products in connection with a 2021 Warning Letter received by Smiths Medical from the FDA following an inspection of Smiths Medical's Oakdale, Minnesota Facility, see Note 18: Commitments and Contingencies for further detail.

Note 15: Income Taxes

Income taxes were accrued at an estimated effective tax rate of (10)% and (8)% for the three and six months ended June 30, 2024, respectively, as compared to 57% and 46% for the three and six months ended June 30, 2023, respectively.

The effective tax rate for the three and six months ended June 30, 2024 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, section 162(m) excess compensation, tax credits, and a valuation allowance against certain U.S. federal and state deferred tax assets and the following discrete items recognized during the interim period:

- Excess tax benefit recognized on stock option exercises and the vesting of restricted stock units during the three and six months ended June 30, 2024 of $0.7 million and $3.0 million, respectively.
- Unrecognized tax benefits released as a result of the expiration of statute of limitations during the three and six months ended June 30, 2024 of $3.9 million and $4.0 million, respectively.

The Company regularly assesses the realizability of deferred tax assets and records a valuation allowance to reduce the deferred tax assets to the amount that is more likely than not to be realized. In assessing the realizability of our deferred tax assets, we weigh all available positive and negative evidence. This evidence includes, but is not limited to, historical earnings, scheduled reversal of taxable temporary differences, tax planning strategies and projected future taxable income. Due to the weight of objectively verifiable negative evidence, the Company recorded a valuation allowance of $10.4 million and $20.5 million tax expense against certain U.S. federal and state deferred tax assets during the three and six months ended June 30, 2024, respectively. The significant piece of objectively verifiable negative evidence evaluated was the recent U.S. cumulative losses. Our ability to use our deferred tax assets depends on the amount of taxable income in future periods. Based on current earnings and anticipated future earnings along with expected changes in our deferred tax asset and liability balances, it is likely that the current valuation allowance position will be adjusted during the year. An additional valuation allowance may be required beyond the current year if future earnings are not sufficient to support the realization of deferred tax assets.

In 2021, the Organization for Economic Cooperation and Development ("OECD") released model rules for a 15% global minimum tax, known as Pillar Two. On December 15, 2022, the European Union agreed to implement the OECD's global minimum tax of 15% for multinationals that meet a global revenue threshold. A number of countries have enacted or have announced plans to enact legislation to adopt Pillar Two. We considered the applicable tax law changes on Pillar Two implementation in the relevant countries, and there was no material impact to our tax provision for the three and six months ended June 30, 2024. We do not expect the provisions currently in effect for 2024 to have a material impact on our tax provision and effective tax rate for the remainder of 2024 but will continue to assess the impact of tax legislation in the jurisdictions in which we operate.

The effective tax rate for the three and six months ended June 30, 2023 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, section 162(m) excess compensation, foreign-derived intangible income ("FDII"), tax credits, and the following discrete items recognized during the interim period:

- Excess tax benefit recognized on stock option exercises and the vesting of restricted stock units during the three and six months ended June 30, 2023 of $0.9 million and $0.2 million, respectively.
- Unrecognized tax benefits released as a result of the expiration of the statue of limitations during the three and six months ended June 30, 2023 of $6.0 million and $6.0 million, respectively.
- Revaluation of the contingent consideration during the three and six months ended June 30, 2023 which resulted in a tax expense of $0.0 million for both periods.

Note 16: Long-Term Debt

2022 Credit Agreement

In 2022, in connection with the acquisition of Smiths Medical, we entered into a Credit Agreement (the "Credit Agreement") with Wells Fargo Bank, National Association, Wells Fargo Securities, LLC, Barclays Bank PLC and certain other financial institutions (the “Lenders”) for $2.2 billion of senior secured credit facilities. The senior secured credit facilities include (i) a five-year Tranche A term loan of $850.0 million (the "Term Loan A"), (ii) a seven-year Tranche B term loan of $850.0 million (the "Term Loan B") and (iii) a five-year revolving credit facility of $500.0 million (the "Revolving Credit Facility"), with separate sub-limits of $50.0 million for letters of credit and swingline loans (collectively, the "Senior Secured Credit Facilities"). We used the proceeds from borrowings under the Term Loan A and the Term Loan B (collectively, the "Term Loans") to fund a portion of the cash consideration for the purchase of Smiths Medical and the related fees and expenses incurred in connection with the acquisition. We did not incur borrowings under the Revolving Credit Facility on the closing date of the acquisition. The proceeds from any future borrowings under the Revolving Credit Facility may be used for working capital and other general corporate purposes.

In connection with entering into the Credit Agreement in 2022, we incurred $37.8 million in debt discount and issuance costs, which were allocated to the Term Loan A, the Term Loan B and the Revolving Credit Facility based on lender commitment amounts relative to each type of fees paid. The lender and third-party discount and issuance costs allocated to the Term Loan A and the Term Loan B were $15.8 million and $13.4 million, respectively, the current unamortized balances are reflected as a direct deduction from the face amount of the corresponding term loans on the condensed consolidated balance sheet. These costs are being amortized to interest expense over the respective terms of the loans using the effective interest method. The issuance costs allocated to the Revolving Credit Facility were $8.6 million, which are capitalized and included in prepaid expenses and other current assets and other assets on our condensed consolidated balance sheets. These costs are being amortized to interest expense over the term of the Revolving Credit Facility using the straight-line method.

The net funds received from the Term Loan A and the Term Loan B, after deducting debt issuance costs, were $834.2 million and $836.6 million, respectively.

Maturity Dates

The maturity date for the Term Loan A and the Revolving Credit Facility is January 6, 2027, and the maturity date for the Term Loan B is January 6, 2029. Pursuant to the terms and conditions of the Credit Agreement, the maturity dates of the Term Loans and the Revolving Credit Facility may be extended upon our request, subject to the consent of the Lenders.

Interest Rate Terms

In general, the Term Loans and borrowings under the Revolving Credit Facility denominated in U.S. dollars bear interest, at our option, on either: (1) the Base Rate, as defined below, plus the applicable margin, as indicated below ("Base Rate Loans") or (2) the Adjusted Term Secured Overnight Financing Rate ("Adjusted Term SOFR"), as defined below, plus the applicable margin, as indicated below ("Term SOFR Loans").

The Base Rate is defined as the highest of (a) the Prime Rate, (b) the Federal Funds Rate plus 0.50% and (c) Adjusted Term SOFR (as defined below) for a one-month period plus, in each case, 1.00%.

Adjusted Term SOFR is the rate per annum equal to (a) the Term SOFR plus (b) the Term SOFR Adjustment. Term SOFR is the forward-looking term rate based on SOFR and is calculated separately for Term SOFR Loans and Base Rate Loans, as specified in the Credit Agreement. The Term SOFR Adjustment is a percentage per annum of 0.10% for Base Rate Loans and between 0.10% to 0.25% for Term SOFR Loans based on the applicable interest period.

Revolving Credit Facility Commitment Fee

The Revolving Credit Facility has a per annum commitment fee at an initial rate of 0.25% which is applied to the available amount of the Revolving Credit Facility. Effective on the first Adjustment Date, as defined in the Credit Agreement, occurring subsequent to our quarter ended June 30, 2022, the commitment fee is determined by reference to the leverage ratio in effect from time to time as set forth in the table below.

Applicable Interest Margins

The Term Loan A and borrowings under the Revolving Credit Facility have an initial applicable margin of 0.75% per annum for Base Rate Loans and 1.75% per annum for Term SOFR Loans.

Effective on the first Adjustment Date, as defined in the Credit Agreement, occurring subsequent to our quarter ended June 30, 2022, the applicable margin for the Term Loan A and borrowings under the Revolving Credit Facility is determined by reference to the leverage ratio in effect from time to time as set forth in the following table:

Leverage Ratio	Applicable Margin for Term SOFR Loans	Applicable Margin for Base Rate Loans	Commitment Fee R
Greater than 4.00 to 1.0	2.25%	1.25%	0.35%
Less than or equal to 4.00 to 1.0 but greater than 3.00 to 1.0	2.00%	1.00%	0.30%
Less than or equal to 3.00 to 1.0 but greater than 2.50 to 1.0	1.75%	0.75%	0.25%
Less than or equal to 2.50 to 1.0 but greater than 2.00 to 1.0	1.50%	0.50%	0.20%
Less than or equal to 2.00 to 1.0	1.25%	0.25%	0.15%

The Term Loan B has an initial applicable margin of 1.5% per annum for Base Rate Loans and 2.5% per annum for Term SOFR Loans.

Effective on the first Adjustment Date, as defined in the Credit Agreement, occurring subsequent to our quarter ended June 30, 2022, the applicable margin for the Term Loan B is determined by reference to the leverage ratio in effect from time to time as set forth in the following table:

Leverage Ratio	Applicable Margin for Term SOFR Loans	Applicable Margin for Base Rate Loans
Greater than 2.75 to 1.0	2.50%	1.50%
Less than 2.75 to 1.0	2.25%	1.25%

Principal Payments

Principal payments on the Term Loans are due on the last day of each calendar quarter commencing on June 30, 2022.

The Term Loan A amortizes in nineteen consecutive quarterly installments in an amount equal to 2.50% of the original principal amount in each of the first two years, 5.00% in each of the third and fourth years and 7.50% in the fifth year, with a final payment of the remaining outstanding principal balance due on the maturity date.

The Term Loan B matures in twenty-seven consecutive quarterly installments in an amount equal to 0.25% of the original principal amount, with a final payment of the remaining outstanding principal balance due on the maturity date.

We may borrow, prepay and re-borrow amounts under the Revolving Credit Facility, in accordance with the terms and conditions of the Credit Agreement, with all outstanding amounts due at maturity.

For the six months ended June 30, 2024 and 2023, total principal payments on the Term Loans were $25.5 million and $14.8 million, respectively.

Interest Payments

Interest payments on Base Rate Loans are payable quarterly in arrears on the last business day of each calendar quarter and the applicable maturity date. Interest periods on Term SOFR Loans are determined, at our option, as either one, three or six months and will be payable on the last day of each interest period and the applicable maturity date. In the case of any interest periods of more than three months' duration, the interest payment are payable on each day prior to the last day of such interest period that occurs at three-month intervals.

The commitment fee on the Revolving Credit Facility is payable quarterly in arrears on the third business day following the last day of each calendar quarter and at the maturity date. The commitment fee is included in interest expense in our condensed consolidated statements of operations.

Guarantors and Collateral

Our obligations under the Credit Agreement are unconditionally guaranteed, on a joint and several basis, by ICU Medical, Inc. and certain of our existing subsidiaries.

Debt Covenants

The Credit Agreement contains affirmative and negative covenants, including certain financial covenants. The negative covenants include restrictions regarding the incurrence of liens and indebtedness, certain merger and acquisition transactions, asset sales and other dispositions, other investments, dividends, share purchases and payments affecting subsidiaries, changes in nature of business, fiscal year or organizational documents, prepayments and redemptions of subordinated and other junior debt, transactions with affiliates, and other matters.

The financial covenants include the Senior Secured Leverage Ratio and the Interest Coverage Ratio, both defined below, and pertain to the Term Loan A and the Revolving Credit Facility.

The Senior Secured Leverage Ratio is defined, at any measurement date, as the ratio of: (a) all Funded Debt, as defined in the Credit Agreement, that is secured by a lien on any asset or property minus the lesser of (i) all unrestricted cash and cash equivalents and (ii) $500.0 million, to (b) Consolidated EBITDA, as defined in the Credit Agreement, for the most recently completed four fiscal quarters, calculated on a pro forma basis. The maximum Senior Secured Leverage Ratio is 4.50 to 1.00 until June 30, 2024. Thereafter, the maximum Senior Secured Leverage Ratio is 4.00 to 1.00, with limited permitted exception.

The Interest Coverage ratio is defined, at any measurement date, as the ratio of Consolidated EBITDA, as defined in the Credit Agreement, to Consolidated Interest Expense, as defined in the Credit Agreement, paid or payable in cash, for the most recently completed four fiscal quarters. The minimum Interest Coverage ratio is 3.00 to 1.00.

We were in compliance with all financial covenants as of June 30, 2024.

The Credit Agreement contains customary events of default, including, among others: non-payments of principal and interest; breach of representations and warranties; covenant defaults; cross-defaults and cross-acceleration to certain other material indebtedness; the existence of bankruptcy or insolvency proceedings; certain events under ERISA; material judgments; and a change of control. If an event of default occurs and is not cured within any applicable grace period or is not waived, the administrative agent and the Lenders are entitled to take various actions, including, without limitation, the acceleration of all amounts due and the termination of commitments under the Senior Secured Credit Facilities.

The carrying values of our long-term debt consist of the following (in thousands):

	Effective Interest Rate	As of June 30, 2024	Effective Interest Rate	As of December 31, 202[illegible]
Senior Secured Credit Facilities:				
Term Loan A — principal	8.22 %	$ 791,563	7.67 %	$ 812,[illegible]
Term Loan B — principal	8.57 %	830,875	8.00 %	835,[illegible]
Revolving Credit Facility — principal	— %		— %	
Less unamortized debt issuance costs[(1)]		(16,616)		(19,[illegible]
Total carrying value of long-term debt		1,605,822		1,628,[illegible]
Less current portion of long-term debt		51,000		51,[illegible]
Long-term debt, net		$ 1,554,822		$ 1,577,[illegible]

(1) Comprised of $7.7 million and $8.9 million relating to the Term Loan A and the Term Loan B, respectively, as of June 30, 2024.

As of June 30, 2024, the aggregate amount of principal repayments of our long-term debt (including any current portion) for each of the next five years and thereafter is approximately (in thousands):

Remainder of 2024	$ [illegible]
2025	[illegible]
2026	[illegible]
2027	6[illegible]
2028	
2029	7[illegible]
Thereafter	
Total	$ 1,6[illegible]

The following table presents the total interest expense related to our long-term debt (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Contractual interest	$ 31,851	$ 30,836	$ 64,126	$ [illegible]
Amortization of debt issuance costs	1,704	1,703	3,411	
Commitment fee — Revolving Credit Facility	379	383	758	
Total long-term debt-related interest expense	$ 33,934	$ 32,922	68,295	[illegible]

We currently hedge against the contractual interest expense on our long-term debt (see Note 7: Derivatives and Hedging Activities).

Note 17: Stockholders' Equity

Shareholders Agreement

At the completion of the Smiths Medical acquisition in 2022, Smiths owned approximately 10.5% of the total outstanding shares of our common stock (see Note 3: Restructuring, Strategic Transaction and Integration). At closing, in connection with the issuance of the share consideration, we entered into a Shareholders Agreement (the "Shareholders Agreement") with Smiths. The Shareholders Agreement permits Smiths to designate one individual for election to our Board of

Directors (the "Board") so long as Smiths beneficially owns at least 5.0% of the total outstanding shares of our common stock. On February 28, 2024, Smiths designated board member, Mr. William Seeger, notified us of his resignation from our Board in anticipation of his retirement from the Board of Directors of Smiths. See our Current Report on Form 8-K filed on February 29, 2024 for additional information. As of June 30, 2024, Smiths retained the right to designate a board member based on their ownership level as of that date. However, during July 2024, Smiths sold a portion of their outstanding shares of our common stock which left Smiths with an ownership percentage under the required 5.0% needed for the right to designate a board member.

Treasury Stock

In August 2019, our Board approved a share purchase plan to purchase up to $100.0 million of our common stock. This plan has no expiration date. During the three and six months ended June 30, 2024, we did not purchase any shares of our common stock under our share purchase plan. As of June 30, 2024, 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 Agreement (see Note 16: Long-Term Debt).

For the six months ended June 30, 2024, we withheld 112,876 shares of our common stock from employee vested restricted stock units in consideration for $11.7 million in payments made on the employees' behalf for their minimum statutory income tax withholding obligations. For the six months ended June 30, 2023, we withheld 54,371 shares of our common stock from employee vested restricted stock units in consideration for $8.7 million in payments made on the employees' behalf for their minimum statutory income tax withholding obligations. Treasury stock is used to issue shares for stock option exercises and restricted stock grants.

Accumulated Other Comprehensive (Loss) Income ("AOCI")

The components of AOCI, net of tax, were as follows (in thousands):

	Foreign Currency Translation Adjustments	Unrealized Gains (Losses) on Cash Flow Hedges	Other Adjustments	Total
Balance as of January 1, 2024	$ (76,784)	$ 21,884	$ 1,819	$ (53,081)
Other comprehensive (loss) income before reclassifications	(22,817)	13,908	—	(8,909)
Amounts reclassified from AOCI	—	(7,548)	—	(7,548)
Other comprehensive (loss) income	(22,817)	6,360	—	(16,457)
Balance as of March 31, 2024	$ (99,601)	$ 28,244	$ 1,819	$ (69,538)
Other comprehensive (loss) income before reclassifications	(15,865)	436	—	(15,429)
Amounts reclassified from AOCI	—	(6,818)	—	(6,818)
Other comprehensive loss	(15,865)	(6,382)	—	(22,247)
Balance as of June 30, 2024	$ (115,466)	$ 21,862	$ 1,819	$ (91,785)

	Foreign Currency Translation Adjustments	Unrealized Gains (Losses) on Cash Flow Hedges	Other Adjustments	Total
Balance as of January 1, 2023	$ (122,973)	$ 40,779	$ 1,216	$ (80,978)
Other comprehensive income (loss) before reclassifications	24,983	(113)	(31)	24,839
Amounts reclassified from AOCI	—	(5,464)	—	(5,464)
Other comprehensive income (loss)	24,983	(5,577)	(31)	19,375
Balance as of March 31, 2023	$ (97,990)	$ 35,202	$ 1,185	$ (61,603)
Other comprehensive income (loss) before reclassifications	7,569	13,175	(34)	20,710
Amounts reclassified from AOCI	—	(7,901)	—	(7,901)
Other comprehensive income (loss)	7,569	5,274	(34)	12,809
Balance as of June 30, 2023	$ (90,421)	$ 40,476	$ 1,151	$ (48,794)

Note 18: Commitments and Contingencies

Legal Proceedings

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

Off-Balance Sheet Arrangements

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

Contingencies

In January 2022, we acquired Smiths Medical. Total consideration for the acquisition included a potential earn-out payment of $100.0 million in cash contingent on our common stock achieving the Price Targets from the closing date to either the third or fourth anniversary of closing and provided Smiths beneficially owned at least 50.0% of the shares of common stock issued at closing at the time the Price Target is achieved. As of June 30, 2024, the estimated fair value of the contingent earn-out was $3.9 million (see Note 8: Fair Value Measurements). During July 2024, Smiths sold 1.2 million common shares of ICU Medical, Inc. It was issued as partial consideration for the 2022 acquisition of Smiths Medical. The sale of shares when combined with other sales in prior periods renders Smiths unable to achieve the contingent consideration based on certain price targets during the third and fourth anniversary of closing as Smiths no longer meets the required minimum beneficial ownership percentage. Accordingly, the third quarter 2024 valuation of the contingent earn-out will reduce the contingent earn-out's fair market value to zero.

Prior to being acquired, during 2021, Smiths Medical received a Warning Letter from the FDA following an inspection of Smiths Medical's Oakdale, Minnesota Facility. The Warning Letter cited, among other things, failures to comply with FDA's medical device reporting requirements and failures to comply with applicable portions of the Quality System Regulation. A provision for the estimated costs related to the field service corrective actions identified as of the closing date of the acquisition was recorded on the opening acquired balance sheet of Smiths Medical in the amount of $55.1 million. The initial estimate recorded was based on a probability-weighted estimate of the costs required to settle the obligation related to known field corrective actions. The actual costs to be incurred are dependent upon the scope of the work necessary to achieve regulatory clearance, including potential additional field corrective actions, and could differ from the original estimate. For the three and six months ended June 30, 2024, we recorded a net reversal to the provision of $6.8 million and $6.6 million, respectively, to adjust the estimated cost to complete the field corrective actions to the amounts expected to be incurred based on historical experience. As of June 30, 2024, approximately $43.4 million of the $50.5 million of accrued field service corrective action recorded was related to Smiths Medical.

In November 2021, we acquired a small foreign infusion systems supplier. Total consideration for the acquisition included a potential earn-out payment of up to $2.5 million, consisting of (i) a cash payment of $1.0 million contingent on the achievement of certain revenue targets for the annual period ended December 31, 2022 and, separately, (ii) a cash payment of $1.5 million contingent upon obtaining certain product-related regulatory certifications. As of December 31, 2022, the measurement period related to (i) above ended and based on the actual revenue achieved during the measurement period we determined that the fair value of the contingent earn-out was zero as the minimum threshold for earning the earn-out was not met. As of June 30, 2024, the estimated fair value of the contingent earn-out related to certain product-related regulatory certification was estimated to be $1.5 million (see Note 8: Fair Value Measurements).

In August 2021, we entered into an agreement with one of our international distributors whereby that distributor would not compete with us in a specific territory for a three-year period that ends September 2024. The terms of the agreement included a contingent earn-out payment. The contingent earn-out could not exceed $6.0 million, and was to be earned based on certain revenue targets over a twelve-month measurement period determined by the highest four consecutive quarters commencing over a two-year period starting on the closing date of the agreement and provided that the distributor is in compliance with its obligations under the agreement. As of December 31, 2023, the fair value of the contingent earn-out was determined to be $3.4 million and was paid out during the three months ended March 31, 2024 (see Note 8: Fair Value Measurements).

Commitments

We have non-cancelable 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") whereby (i) Pfizer would 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) 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. We no longer purchase products from Pfizer under the MSA as described in (i) above.

The MSA described in (ii) above provides each party with mutually beneficial interests and is jointly managed by both Pfizer and ICU. The initial supply price, which will be annually updated, is in full consideration for all costs associated with the manufacture, documentation, packaging and certification of the products. On January 1, 2021, we amended our MSA with Pfizer, whereby we manufacture and supply certain agreed upon products to Pfizer. The amendments included a change to the term of the agreement to end on December 31, 2024 with Pfizer's unilateral election to extend through December 31, 2025. Other changes to the terms of the MSA included (i) amendments to our level of supply of products to Pfizer, (ii) certain changes to our manufacturing lines, (iii) updates to our supply price with added volume price tiers for annual periods and (iv) certain minimum purchase requirements for certain products.

Note 20: Accounts Receivable Purchase Program

On January 19, 2023, we entered into a revolving $150 million uncommitted receivables purchase agreement with Bank of The West, which was subsequently acquired by BMO in February 2023. This agreement provided for a less expensive form of capital. The discount rate applied to the sold receivables equals a rate per annum equal to the sum of (i) an applicable margin, plus (ii) Term SOFR for a period equal to the discount period which is calculated with respect to the payment terms of the specific receivable. The accounts receivable sold have payment terms ranging between 30 and 60 days, and are related to customer accounts with good credit history. The transfer of the purchased accounts receivable under the agreement is intended to be an absolute and irrevocable transfer constituting a true sale as the transferred receivables have been isolated beyond the reach of the Company and our creditors, even in bankruptcy or other receivership. We do not retain effective control over the sold receivables and BMO has the right upon purchase to pledge and/or exchange the transferred assets without restrictions. The Company acts as collection agent for BMO and collection services are undertaken by our accounts receivable personnel in their normal course of business and collected funds are remitted to BMO. We do not have any continuing involvement with the sold receivables other than the collection services which does not provide us with more than a trivial benefit. The discount rate has been negotiated net of consideration for the collection services, the cost of collection is immaterial to the Company; therefore, we did not separately record any related servicing assets or liabilities related to the sold receivables.

The following table presents information in connection with the purchase program (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Trade receivables sold[(1)]	$ 172,755	$ 150,665	$ 348,447	$ 290,271
Cash received in exchange for trade receivables sold[(2)]	171,682	149,758	346,282	288,586
Loss on sale of receivables[(3)]	1,073	907	2,165	1,684

[(1)] Represents carrying value of trade receivables sold to BMO.
[(2)] Cash proceeds received from BMO.
[(3)] Reflected in other expense, net in our condensed consolidated statement of operations.

As of June 30, 2024 and December 31, 2023, cash remaining to be collected on behalf of BMO was $53.1 million and $75.9 million, respectively, which has been removed from our condensed consolidated balance sheets as of June 30, 2024 and December 31, 2023, respectively and is reflected as cash provided by operating activities in the condensed consolidated statement of cash flows in each respective period. The carrying value of the sold receivables approximated the fair value at June 30, 2024.

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

You should read the following discussion and analysis of our financial condition and results of operations together with the condensed consolidated financial statements and accompanying notes in this Quarterly Report on Form 10-Q, as well as the audited consolidated financial statements and related notes thereto included in our 2023 Annual Report on Form 10-K. This discussion contains forward-looking statements based upon current plans, expectations and beliefs involving risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under the caption entitled “Forward-Looking Statements” in this section and Part I, Item 1A. “Risk Factors” in our 2023 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 consolidated subsidiaries included in our condensed consolidated financial statements unless context requires otherwise.

Business Overview and Highlights

We develop, manufacture, and sell innovative medical products used in infusion systems, infusion consumables and high-value critical care products used in hospital, alternate site and home care settings. Our team is focused on providing quality, innovation and value to our clinical customers worldwide. Our product portfolio includes ambulatory, syringe, and large volume IV pumps and safety software; dedicated and non-dedicated IV sets, needlefree IV connectors, peripheral IV catheters, and sterile IV solutions; closed system transfer devices and pharmacy compounding systems; as well as a range of respiratory, anesthesia, patient monitoring, and temperature management products.

Products

Our primary product offerings are organized under three business units as listed below. We have presented our financial results in accordance with these business units:

Consumables

Our Consumables business unit includes Infusion Therapy, Oncology, Vascular Access and Tracheostomy products.

Infusion Therapy

Our Infusion Therapy products include non-dedicated infusion sets, extension sets, needle-free connectors, and disinfection caps. Infusion sets used in hospitals and ambulatory clinics consist of flexible sterile tubing running from an IV bag or bottle containing a drug product or solution to a catheter inserted in a patient’s vein that may or may not be used with an infusion pump. Disinfection caps are used to actively disinfect access points into the infusion sets and catheters. Our primary Infusion Therapy 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;
- Neutron™ catheter patency device, used to help maintain patency of central venous catheters;
- Tego™ needlefree connector utilized to access catheters for hemodialysis and apheresis applications; and
- ClearGuard™, SwabCap™ and SwabTip™ disinfection caps.

Oncology

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 primary Oncology 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

- Deltec® GRIPPER® non-coring needles for portal access.

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.

Vascular Access

Our Vascular Access products are used by clinicians to access the patients' bloodstream to deliver fluids and medication or to obtain blood samples. Our primary Vascular Access products are:

- Jelco® safety and conventional peripheral IV catheters and sharps safety devices for hypodermic injection, designed to help prevent accidental needlestick injury;

- Safe-T Wing® venipuncture and blood collection devices;

- Port-A-Cath® implantable ports;

- Portex® arterial blood sampling syringes;

- PowerWand® midline catheters; and

- Cleo® subcutaneous infusion catheters and sets.

Tracheostomy

Our tracheostomy products are used in the placement of a secure airway using both surgical and percutaneous insertion techniques. Our primary Tracheostomy products are:

- Portex BLUselect® PVC tracheostomy tubes, which feature an inner cannula as well as a Suctionaid option for above the cuff suctioning and vocalization capability;

- Portex Bivona® silicone tracheostomy tubes, which offer the added benefits of comfort and mobility and come in a variety of configurations suited to meet the clinical needs of neonatal through adult patients; and

- Portex BLUperc® percutaneous insertion kits, which allow for safe placement of the tracheostomy tube at the bedside.

Infusion Systems

We offer a comprehensive portfolio of infusion pumps, dedicated IV sets, software and professional services to meet the wide range of infusion needs. Our primary Infusion System products are:

Large Volume Pump ("LVP") Hardware:

- Plum 360™infusion pumps feature a unique delivery system that helps to enhance patient safety and workflow efficiency. The pumps work with PlumSet™ dedicated IV sets that include an air trap to help minimize interruptions and a direct connection to the secondary line that eliminates the risk of setup errors and enables concurrent delivery of two compatible medications through a single line. Plum 360 has been named Best in KLAS for seven years in a row (2018, 2019, 2020, 2023 – Best in KLAS Smart Pump Traditional; 2021, 2022, 2023, 2024 Best in KLAS Smart Pump EMR Integrated) and was the first medical device to be awarded UL Cybersecurity Assurance Program Certification.

- Plum Duo™ infusion pumps with LifeShield™ safety software are dual channel devices capable of delivering up to four compatible medications at independent rates with a single pump. The Plum Duo combines the award-winning legacy of Plum 360 with modern innovation, including a large touch screen and highly intuitive user interface to help guide users through programming, while streamlining complex tasks.

Ambulatory Infusion Hardware:

- CADD™ ambulatory infusion pumps and disposables, including administration sets and medication cassette reservoirs, serve as a single pain management platform across all types of IV pain management therapies and all clinical care areas from the hospital to outpatient treatment.

Syringe Infusion Hardware:

- Medfusion™ syringe infusion pumps are designed for the administration of fluids and medication to address the needs of the most vulnerable patients requiring precisely controlled infusion rates. Focused on delivery accuracy, the Medfusion 4000 can deliver from a comprehensive portfolio of syringes to meet syringe pump guidance to deliver medication from the smallest syringe size possible.

IV Medication Safety Software:

- ICU Medical MedNet™ software is an enterprise-class medication management platform that can help reduce medication errors, improve quality of care, streamline workflows and maximize revenue capture. ICU Medical MedNet connects our industry-leading Plum 360 smart pumps to a hospital's EHR, asset tracking systems, and alarm notification platforms to further enhance infusion safety and efficiency.

- LifeShield™ infusion safety software for Plum Duo infusion pumps is an enterprise-wide platform designed with the input of pharmacists, nurses and administrators to empower health systems to raise the bar in IV performance. The system's hybrid architecture provides cloud-based functionality to allowing access anywhere with on-premise management providing security and control.

- PharmGuard™ medication safety software for Medfusion 4000 syringe and CADD-Solis™ pumps allows for customized drug libraries to support the standardization of protocols for medication administration throughout the facility.

Professional Services:

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

Vital Care

Our Vital Care business unit includes IV Solutions, Hemodynamic Monitoring, General Anesthesia and Respiratory, Temperature Management Solutions and Regional Anesthesia/Pain Management products.

IV Solutions

Our IV Solutions products include a broad portfolio of injection, irrigation, nutrition and specialty IV solutions including:

- IV Therapy and Diluents, including Sodium Chloride, Dextrose, Balanced Electrolyte Solutions, Lactated Ringer's, Ringer's, Mannitol, Sodium Chloride/Dextrose and Sterile Water.

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

Hemodynamic Monitoring

Our Hemodynamic Monitoring products are designed to 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 Hemodynamic Monitoring products include:

- 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;
- SafeSet™ closed blood sampling and conservation system; and
- MEDEX® LogiCal® Pressure Monitoring System and components.

General Anesthesia & Respiratory

We offer a broad range of anesthesia systems and devices and breathing circuits, ventilation, respiratory and specialty airway products that maintain patients' airways before, during and after surgery. Our primary Anesthesia & Respiratory products are:

- Portex® acapella® bronchial hygiene products used to mobilize pulmonary secretions to facilitate the opening of airways in patients with chronic respiratory diseases such as chronic obstructive pulmonary disease, or COPD, asthma and cystic fibrosis.

Temperature Management Solutions

Temperature Management solutions systems are used in perioperative and critical care settings to help monitor and regulate patient temperature. Our primary Temperature Management products include:

- Level 1® rapid infusion, fluid warming, routine blood and fluid warming, irrigation fluid warming, convective patient warming and temperature probes.

Regional Anesthesia/Pain Management Trays

We offer a comprehensive range of Portex® regional anesthesia/pain management trays and components. Our primary products include:

- Epidural Trays;
- Spinal Trays;
- Combined (CSE) Trays;
- Peripheral Nerve Block Trays; and
- Specialty Trays (Lumbar Puncture, Amniocentesis, Myelogram).

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.

Supply Constraints, Global Economic Conditions

We have experienced and may continue to experience significant impacts to our business as a result of global economic challenges, resulting from, among other events, health pandemics and geopolitical conflicts. These impacts, which negatively impacted our gross profit margin during 2023, included the impact of rising inflation, especially with respect to freight costs driven by higher fuel prices, increased cost and shortages of raw materials, and supply chain disruptions. While we expect the pressure on the supply chain to lessen and inflation to continue to subside during 2024, freight costs are expected to remain subject to volatility in the market. We also expect higher interest rates and the foreign currency impact due to the strengthening of the U.S. dollar and Mexican peso that impacted our 2023 financial results to continue to impact our results of operations in 2024.

While we continually monitor the ongoing and evolving impact of the above events on our operations the overall impact remains uncertain and may not be fully reflected in our results of operations until future periods. The overall impact to our results of operations will depend on a number of factors, many of which are out of our control, none of which can be fully predicted at this time. See “Part I. Item 1A. Risk Factors: Heightened inflation, higher interest rates and foreign currency rate fluctuations as a result of global macroeconomic and geopolitical conditions have had and could in the future have a material adverse effect on our operations” in our 2023 Annual Report on Form 10-K for a discussion of risks and uncertainties.

Consolidated Results of Operations

We present income statement data in Part I, Item 1. "Financial Statements." The following table shows, for the three and six months ended June 30, 2024 and 2023, the percentages of each income statement caption in relation to total revenue:

	Three months ended June 30,		Six months ended June 30,	
	2024	**2023**	**2024**	**2023**
Total revenues	100 %	100 %	100 %	100 %
Gross profit	35 %	35 %	34 %	34 %
Selling, general and administrative expenses	27 %	27 %	27 %	27 %
Research and development expenses	4 %	4 %	4 %	4 %
Restructuring, strategic transaction and integration expenses	3 %	2 %	3 %	2 %
Change in fair value of contingent earn-out	— %	1 %	— %	— %
Total operating expenses	34 %	34 %	34 %	33 %
Income from operations	1 %	1 %	— %	1 %
Interest expense, net	(4)%	(4)%	(4)%	(4)%
Other expense, net	(1)%	— %	— %	— %
Loss before income taxes	(4)%	(3)%	(4)%	(3)%
Benefit for income taxes	— %	2 %	— %	1 %
Net loss	(4)%	(1)%	(4)%	(2)%

Seasonality/Quarterly Results

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

Non-GAAP Financial Measures

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. The presentation of revenues on a constant currency basis is a non-GAAP financial measure that excludes the impact of fluctuations in foreign currency exchange rates that occurred between the comparative periods. We provide constant currency information to enhance the visibility of underlying business trends, excluding the effects of changes in foreign currency translation rates. We believe this information is useful to investors to facilitate comparisons and better identify trends in our business. Our constant currency revenues reflect current period local currency revenues at prior period's average exchange rates. We consistently apply this approach to revenues for all currencies where the functional currency is not the U.S. dollar. 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.

Consumables

The following table summarizes our total Consumables revenue (in millions, except percentages):

	Three months ended June 30,				Six months ended June 30,			
	2024	2023	$ Change	% Change	2024	2023	$ Change	% Change
Consumables revenue (GAAP)	$ 261.8	$ 237.0	$ 24.8	10.5 %	$ 505.9	$ 473.1	$ 32.8	6.9 %
Impact of foreign currency exchange rate changes	1.8				2.0			
Consumables revenue on a constant currency basis (non-GAAP)	$ 263.6	$ 237.0	$ 26.6	11.2 %	$ 507.9	$ 473.1	$ 34.8	7.4 %

Consumables revenue increased for the three and six months ended June 30, 2024, as compared to the same periods in the prior year, primarily due to growth in our Infusion Consumables, Vascular Access and Oncology product lines.

Infusion Systems

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

	Three months ended June 30,				Six months ended June 30,			
	2024	2023	$ Change	% Change	2024	2023	$ Change	% Change
Infusion Systems (GAAP)	$ 163.7	$ 153.2	$ 10.5	6.9 %	$ 321.0	$ 314.9	$ 6.1	1.9 %
Impact of foreign currency exchange rate changes	6.0				11.1			
Infusion Systems on a constant currency basis (non-GAAP)	$ 169.7	$ 153.2	$ 16.5	10.8 %	$ 332.1	$ 314.9	$ 17.2	5.5 %

Infusion Systems revenue increased for the three and six months ended June 30, 2024, as compared to the same periods in the prior year, primarily due to the impact of foreign currency exchange rate changes and sales of ambulatory hardware and dedicated sets.

Vital Care

The following table summarizes our total Vital Care revenue (in millions, except percentages):

	Three months ended June 30,				Six months ended June 30,			
	2024	2023	$ Change	% Change	2024	2023	$ Change	% Change
Vital Care (GAAP)	$ 171.0	$ 159.2	$ 11.8	7.4 %	$ 336.3	$ 330.0	$ 6.3	1.9 %
Impact of foreign currency exchange rate changes	1.5				2.4			
Vital Care on a constant currency basis (non-GAAP)	$ 172.5	$ 159.2	$ 13.3	8.4 %	$ 338.7	$ 330.0	$ 8.7	2.6 %

Vital Care revenue increased for the three and six months ended June 30, 2024, as compared to the same periods in the prior year, primarily due to higher sales of IV Solutions and Pain Management products.

Gross Margins

For the three and six months ended June 30, 2024, gross margins were 34.8% and 33.8%, respectively, as compared to 35.0% and 34.4% for the three and six months ended June 30, 2023, respectively. The decreases in gross margin for the three and six months ended June 30, 2024, as compared to the same periods in the prior year, was primarily driven by lower manufacturing absorption from lower production volumes and the impact of foreign currency exchange rate changes, particularly the strength of the Mexican Peso. These were partially offset by lower quality remediation spend, price increases, and lower supply chain and freight costs in the three and six months ended June 30, 2024 compared to the same prior year period in 2023.

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

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

	Three months ended June 30,				Six months ended June 30,			
	2024	2023	$ Change	% Change	2024	2023	$ Change	% Change
SG&A	$ 159.5	$ 150.9	$ 8.6	5.7 %	$ 317.2	$ 303.5	$ 13.7	4.5 %

SG&A expenses increased for the three months ended June 30, 2024, as compared to the same period in the prior year, primarily due to increases of $6.2 million in compensation costs and $2.4 million in sales commissions. Compensation costs and commissions increased primarily due to an increase in accrued cash incentive compensation and sales commissions.

SG&A expenses increased for the six months ended June 30, 2024, as compared to the same period in the prior year primarily due to increase of $8.7 million in compensation costs, $3.6 million in dealer fees, and $3.5 million in stock-based compensation. Partially offsetting these increases was a $2.8 million decrease in IT expenses. Compensation costs and commissions increased primarily due to an increase in accrued cash incentive compensation and sales commissions increased due to higher revenues. Dealer fees increased due to an increase in revenues to distributors. Stock based compensation increased due to (i) changes in the number of shares expected to vest for certain of our executive performance awards; (ii) later timing of certain annual awards granted in the prior year that were subject to shareholder approval; and (iii) the stock compensation expense related to the employees of Smiths Medical included the expense of three years of grants in the current year as compared to the expense of two years of grants in the prior year. IT expenses decreased based on current operating needs.

Research and Development ("R&D") Expenses

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

	Three months ended June 30,				Six months ended June 30,			
	2024	2023	$ Change	% Change	2024	2023	$ Change	% Change
R&D	$ 23.4	$ 22.3	$ 1.1	4.9 %	$ 45.2	$ 42.1	$ 3.1	7.4 %

R&D expenses increased for the three and six months ended June 30, 2024, as compared to the same periods in the prior year. R&D expenses during both periods primarily related to headcount and employment expense in support of ongoing R&D projects. R&D expenses for both periods presented generally included compensation and benefit expenses, consulting fees, production supplies, samples, travel costs, utilities and other miscellaneous administrative costs incurred in our ongoing R&D projects.

Restructuring, Strategic Transaction and Integration Expenses

Restructuring, strategic transaction and integration expenses were $17.1 million and $33.2 million for the three and six months ended June 30, 2024, respectively, as compared to $12.4 million and $23.4 million for the three and six months ended June 30, 2023, respectively.

Restructuring charges

Restructuring charges were $7.7 million and $13.0 million for the three and six months ended June 30, 2024, respectively, as compared to $1.3 million and $4.0 million for the three and six months ended June 30, 2023, respectively, and were primarily related to severance costs for all periods. The restructuring charges for the six months ended June 30, 2023 is net of $0.9 million related to facility closures costs and severance costs that were reversed during the first fiscal quarter of 2023. As of June 30, 2024, we expect to pay the majority of our outstanding restructuring charges during the remainder of 2024 and 2025.

Strategic transaction and integration expenses

Strategic transaction and integration expenses were $9.4 million and $20.2 million for the three and six months ended June 30, 2024, respectively, as compared to $11.1 million and $19.4 million for the three and six months ended June 30, 2023, respectively. The strategic transaction and integration expenses during the three and six months ended June 30, 2024 and 2023 were primarily related to consulting expenses and employee costs incurred to integrate our Smiths Medical business acquired in 2022.

Change in Fair Value of Contingent Earn-out

For the three months ended June 30, 2024, we recorded a gain of $0.3 million related to a change in the fair value of contingent earn-out related to the Smiths Medical acquisition. The change in the fair value of the contingent earn-out during the six months ended June 30, 2024 was essentially flat. For the three and six months ended June 30, 2023, there was a loss of $4.0 million and $3.3 million, respectively, primarily related to the change in fair value of contingent earn-out related to the Smiths Medical acquisition and the earn-out related to an agreement with one of our international distributors.

Interest Expense, net

The following table presents interest expense, net (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Interest expense	$ (26,648)	$ (25,833)	$ (53,066)	$ (50,099)
Interest income	2,807	1,712	5,453	3,463
Interest expense, net	$ (23,841)	$ (24,121)	$ (47,613)	$ (46,636)

Interest expense, net for the three and six months ended June 30, 2024 and 2023 primarily included the contractual interest incurred on borrowings under the Credit Agreement, the per annum commitment fee charged on the available amount of the revolving credit facility contained in the Credit Agreement, the amortization of debt issuance costs incurred in connection with entering into the Credit Agreement (see Note 16: Long-Term Debt in our accompanying condensed consolidated financial statements), the impact of the interest rate swaps, and interest income. The interest expense component increased for the three and six months ended June 30, 2024, as compared to the respective prior year periods, primarily due to increases in the applicable SOFR reference rate.

Other Expense, net

The following table presents other expense, net (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Foreign exchange (losses) gain, net	$ (2,419)	$ (501)	(4,143)	(339)
Gain (loss) on disposition of assets	12	$ (229)	77	(526)
Other miscellaneous expense, net	(977)	(772)	(1,659)	(906)
Other expense, net	$ (3,384)	$ (1,502)	$ (5,725)	$ (1,771)

For the three and six months ended, June 30, 2024 and 2023, the foreign exchange losses were primarily related to the strengthening of the U.S. dollar relative to foreign currencies, including the Mexican peso and Argentine peso.

Income Taxes

For the three and six months ended June 30, 2024, income taxes were accrued at an estimated effective tax rate of (10)% and (8)%, respectively, as compared to 57% and 46% for the three and six months ended June 30, 2023, respectively.

The effective tax rate for the three and six months ended June 30, 2024 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, section 162(m) excess compensation, tax credits, and a valuation allowance against certain U.S. federal and state deferred tax assets. The effective tax rate during the three and six months ended June 30, 2024 included a tax benefit of $0.7 million and $3.0 million, respectively, related to the excess tax recognized on stock option exercises and the vesting of restricted stock during the period. Additionally, there were unrecognized tax benefits released as a result of the expiration of statute of limitations during the three and six months ended June 30, 2024 of $3.9 million and $4.0 million, respectively.

The Company regularly assesses the realizability of deferred tax assets and records a valuation allowance to reduce the deferred tax assets to the amount that is more likely than not to be realized. In assessing the realizability of our deferred tax assets, we weigh all available positive and negative evidence. This evidence includes, but is not limited to, historical earnings, scheduled reversal of taxable temporary differences, tax planning strategies and projected future taxable income. Due to the weight of objectively verifiable negative evidence, the Company recorded a valuation allowance of $10.4 million and $20.5 million tax expense, against certain U.S. federal and state deferred tax assets during the three and six months ended June 30, 2024, respectively. The significant piece of objectively verifiable negative evidence evaluated was the recent U.S. cumulative losses. Our ability to use our deferred tax assets depends on the amount of taxable income in future periods. Based on current earnings and anticipated future earnings along with expected changes in our deferred tax asset and liability balances, it is likely that the current valuation allowance position will be adjusted during the year. An additional valuation allowance may be required beyond the current year if future earnings are not sufficient to support the realization of deferred tax assets.

In 2021, the Organization for Economic Cooperation and Development ("OECD") released model rules for a 15% global minimum tax, known as Pillar Two. On December 15, 2022, the European Union agreed to implement the OECD’s global minimum tax of 15% for multinationals that meet a global revenue threshold. A number of countries have enacted or have announced plans to enact legislation to adopt Pillar Two. We considered the applicable tax law changes on Pillar Two implementation in the relevant countries, and there was no material impact to our tax provision for the three and six months ended June 30, 2024. We do not expect the provisions currently in effect for 2024 to have a material impact on our tax provision and effective tax rate for the remainder of 2024 but will continue to assess the impact of tax legislation in the jurisdictions in which we operate.

The effective tax rate for the three and six months ended June 30, 2023 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, section 162(m) excess compensation, foreign-derived intangible income (“FDII”) and tax credits. The effective tax rate during the three and six months ended June 30, 2023 included a tax benefit of $0.9 million and $0.2 million, respectively, related to the excess tax benefits recognized on stock option exercises and the vesting of restricted stock during the period. The effective tax rate during the three and six months ended June 30, 2023 also included a tax benefit of $6.0 million primarily related to unrecognized tax benefits released as a result of the expiration of the statute of limitations. Additionally, the effective tax rate for the three and six months ended June 30, 2023 also included the nil tax impact of the revaluation of contingent consideration for $4.0 million and $3.3 million, respectively.

Liquidity and Capital Resources

We regularly evaluate our liquidity and capital resources, including our access to external capital, to assess our ability to meet our principal cash requirements, which include working capital requirements, planned capital investments in our business, commitments, acquisition restructuring and integration expenses, investments in quality systems and quality compliance objectives, payment of interest expense, repayment of outstanding borrowings, income tax obligations and acquisition opportunities in accordance with our growth strategy.

Sources of Liquidity

Our current primary sources of liquidity are cash and cash equivalents, cash flows from our operations including the cash received from our uncommitted trade accounts receivable purchase facility, and access to borrowing arrangements.

Funds generated from operations are held in cash and cash equivalents. During the six months ended June 30, 2024, our cash and cash equivalents increased by $47.9 million from $254.7 million at December 31, 2023 to $302.6 million at June 30, 2024, primarily due to cash generated from operations.

2022 Credit Agreement and Access to Capital

As discussed in Note 16: Long-Term Debt to our accompanying condensed consolidated financial statements, we entered into the Credit Agreement with various lenders on January 6, 2022 in connection with the closing of the Smiths Medical acquisition. The Credit Agreement provides for a five-year term loan A facility of $850.0 million (the "Term Loan A"), a seven-year term loan B facility of $850.0 million (the "Term Loan B") and a five-year revolving credit facility of $500.0 million (the "Revolving Credit Facility") (collectively, the "Senior Secured Credit Facilities"). The proceeds from the term loans were used to finance a portion of the cash consideration for the Smiths Medical acquisition. The outstanding aggregate principal amount of the term loans is $1.6 billion as of June 30, 2024, which includes the Term Loan A that will mature in January 2027 and the Term Loan B that will mature in January 2029. The proceeds of future borrowings under the Revolving Credit Facility, which expires in January 2027, may be used as a source of liquidity to support our ongoing working capital requirements and other general corporate purposes. There are no outstanding borrowings under the Revolving Credit Facility as of June 30, 2024. As part of entering into the Senior Secured Credit Facilities, we were assigned issuer and Term Loan B credit ratings. At the date of issuance of this report, our issuer and Term Loan B credit ratings assigned and outlook were as follows:

	Issuer/Term Loan B Credit Ratings	Outlook
Moody's	Ba3/Ba3	Stable
Fitch	BB/BB+	Negative
Standard & Poor's	BB-/BB-	Negative

The Credit Agreement contains financial covenants that pertain to the Term Loan A and the Revolving Credit Facility. Specifically, we are required to maintain a Senior Secured Leverage Ratio of no more than 4.50 to 1.00 until June 30, 2024, with stepdowns to 4.00 to 1.00 thereafter, and an Interest Coverage Ratio of no less than 3.00 to 1.00 (defined and discussed in greater detail in Note 16: Long-Term Debt to our accompanying condensed consolidated financial statements). We were in compliance with these financial covenants as of June 30, 2024.

In January 2023, we entered into a receivables purchase agreement with Bank of the West, which was subsequently acquired by BMO in February 2023. This agreement accelerates our access to capital (see Note 20: Accounts Receivable Purchase Program).

We believe that our existing cash and cash equivalents along with cash flows expected to be generated from future operations including the cash received from our uncommitted trade accounts receivable purchase facility and the funds received and accessible under the Senior Secured Credit Facilities will provide us with sufficient liquidity to finance our cash requirements for the next twelve months. In the event that we experience downturns, cyclical fluctuations in our business that are more severe or longer than anticipated, fail to achieve anticipated revenue and expense levels, or have significant unplanned cash expenditures, we may need to obtain or seek alternative sources of capital or financing, and we can provide no assurances that the terms of such capital or financing will be available to us on favorable terms, if at all. Our ability to generate cash flows from operations, issue debt or enter into other financing arrangements on acceptable terms could be adversely affected if there is a material decline in the demand for our products or in the solvency of our customers or suppliers, deterioration in our key financial ratios or credit ratings or other significantly unfavorable changes in economic conditions. See Part I. Item 1A. "Risk Factors" in our 2023 Annual Report on Form 10-K for discussion of the risks and uncertainties associated with our debt financing.

Uses of Liquidity

Capital Expenditures

At June 30, 2024, we estimate our capital expenditures in 2024 will be in the range of $85 million to $100 million, compared to the range of $90 million to $110 million previously disclosed. This reduction was due to changes in the timing of certain projects.

Contractual Obligations

Our principal commitments at June 30, 2024 include both short and long-term future obligations.

Operating Leases

We have non-cancelable operating lease agreements where we are contractually obligated for certain lease payment amounts. We assumed additional operating leases as a result of our acquisition of Smiths Medical. For more information regarding our operating lease obligations, (see Note 5: Leases to our accompanying condensed consolidated financial statements).

Long-term Debt

In January 2022, we incurred borrowings under Senior Secured Credit Facilities. The principal repayment obligations and estimated interest payments on the term loans and estimated commitment fee payments on the revolver are estimated in the table below. Interest payments on the term loans were estimated using an Adjusted Term SOFR rate and an applicable margin of 2.00% for Term Loan A and 2.50% for Term Loan B and the revolver commitment fees were estimated using the rate of 0.30%. The applicable margin rate and commitment fee rate will change from time to time in accordance with a preset pricing grid based on the leverage ratio (see Note 16: Long-Term Debt to our accompanying condensed consolidated financial statements for pricing grids related to the Senior Secured Credit Facilities).

We expect to fund these capital expenditures and contractual obligations with our existing cash and cash equivalents and cash generated from our future operations.

	(in millions)						
	Remainder of 2024	**2025**	**2026**	**2027**	**2028**	**2029**	**Thereafter**
Term Loan A Principal Payments	$ 21.3	$ 42.5	$ 63.8	$ 664.1	$ —	$ —	$ —
Term Loan A Interest Payments	30.1	49.4	41.1	0.6	—	—	—
Term Loan B Principal Payments	4.3	8.5	8.5	8.5	8.5	792.6	—
Term Loan B Interest Payments	33.9	58	51.7	51.9	51.5	0.8	—
Revolver Commitment Fee	0.8	1.5	1.5				
	$ 90.4	$ 159.9	$ 166.6	$ 725.1	$ 60.0	$ 793.4	$ —

Other Future Capital Investments

Other future capital investments include restructuring and integration expenses along with spending to support quality systems and quality compliance objectives, which includes acquired field action liabilities. At June 30, 2024, we estimate our other future capital investments in 2024 will be in the range of $80 million to $90 million, compared to the range of $90 million to $110 million previously disclosed. This reduction was due to changes in the timing of certain projects.

Indemnifications

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 liability for indemnification.

Historical Cash Flows

Cash Flows from Operating Activities

Our net cash provided by operations for the six months ended June 30, 2024 was $127.7 million. The changes in operating assets and liabilities included a $6.7 million decrease in accounts receivable, a $21.1 million decrease in inventories, a $9.4 million increase in accounts payable, and a $20.2 million increase in accrued liabilities. Offsetting these amounts was a $12.6 million increase in prepaid expenses and other current assets, a $11.1 million increase in other assets, and $5.1 million in net changes in income taxes, including excess tax benefits and deferred income taxes. The decrease in accounts receivable was primarily due to the amount and timing of revenues. The decrease in inventory was primarily due to our focus on reducing inventory levels. The increase in accounts payable was due to the timing of payments. The increase in prepaid expenses and other current assets was primarily due to increase in deferred costs related to infusion pumps sold and the payment of other miscellaneous prepaid invoices. The increase in other assets was due to the purchase of spare parts. The net changes in income taxes was a result of recording the current deferred provision, the timing of payments, and valuation allowance. The increase in accrued liabilities was primarily due to employee costs.

Our net cash used in operations for the six months ended June 30, 2023 was $39.8 million. The changes in operating assets and liabilities included a $76.0 million increase in inventories, a $12.7 million increase in other assets, a $46.9 million decrease in accounts payable, $26.0 million in net changes in income taxes, including excess tax benefits and deferred income taxes and a $0.1 million decrease in accrued liabilities. Offsetting these amounts was a $46.8 million decrease in accounts receivable and a $3.0 million decrease in prepaid expenses and other current assets. The increase in inventory was primarily to build inventory safety stock levels. The increase in other assets was due to the purchase of spare parts. The decrease in accounts payable was due to the timing of payments. The net changes in income taxes was a result of recording the current deferred provision and the timing of payments. The increase in accrued liabilities was primarily due to employee costs. The decrease in accounts receivable was primarily due to the sale of accounts receivable as part of our accounts receivable purchase program with Bank of the West, which was subsequently acquired by BMO in February 2023 (see Note 20: Accounts Receivable Purchase Program). The decrease in prepaid expenses and other current assets was primarily due to insurance and property taxes.

Cash Flows from Investing Activities

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

	Six months ended June 30, 2024	Six months ended June 30, 2023	Change	
Investing Cash Flows:				
Purchases of property, plant and equipment	$ (35,382)	$ (32,489)	$ (2,893)	(1)
Proceeds from sale of assets	692	1,431	(739)	
Intangible asset additions	(5,364)	(4,651)	(713)	
Proceeds from sale of investment securities	500	2,920	(2,420)	(2)
Net cash used in investing activities	$ (39,554)	$ (32,789)	$ (6,765)	

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

(2) Proceeds from the sale of our investment securities will vary from period to period based on the maturity dates of the investments.

Cash Flows from Financing Activities

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

	Six months ended June 30, 2024	Six months ended June 30, 2023	Change	
Financing Cash Flows:				
Principal payments on long-term debt	(25,500)	(14,813)	(10,687)	(1)
Proceeds from exercise of stock options	3,074	2,233	841	(2)
Payments on finance leases	(518)	(436)	(82)	
Payment of contingent earn-out liability	(2,600)	—	(2,600)	(3)
Tax withholding payments related to net share settlement of equity awards	(11,685)	(8,718)	(2,967)	(4)
Net cash used in financing activities	$ (37,229)	$ (21,734)	$ (15,495)	

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(1) Relates to scheduled principal payments on the Senior Secured Credit Facilities.

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

(3) During the first quarter of 2024, we paid $3.4 million in cash related to the settlement of the Mediverse contingent earn-out. Of the $3.4 million, the amount recorded as the acquisition date fair value, which is considered financing cash flows, was $2.6 million (see Note 8: Fair Value Measurements).

(4) During the six months ended June 30, 2024, our employees surrendered 112,876 shares of our common stock from vested restricted stock unit awards as consideration for approximately $11.7 million in minimum statutory withholding obligations paid on their behalf. During the six months ended June 30, 2023, our employees surrendered 54,371 shares of our common stock from vested restricted stock unit awards as consideration for approximately $8.7 million in minimum statutory withholding obligations paid on their behalf.

Our common stock purchase plan, which authorized the repurchase of up to $100.0 million of our common stock, was approved by our Board of Directors in August 2019. This plan has no expiration date. As of June 30, 2024, all of the $100.0 million available for purchase was remaining under the plan. We are limited on share purchases in accordance with the terms and conditions of our Credit Agreement (see Note 16: Long-Term Debt in our accompanying condensed consolidated financial statements).

Critical Accounting Policies

In our 2023 Annual Report on Form 10-K, 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 2023 Annual Report on Form 10-K.

New Accounting Pronouncements

See Note 2: New Accounting Pronouncements in Part I, Item 1. "Financial Statements."

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

Credit Facility

In connection with the Smiths Medical acquisition on January 6, 2022 we entered into the Senior Secured Credit Facilities totaling approximately $2.2 billion consisting of a variable-rate term loan A facility of $850.0 million, a variable-rate term loan B facility of $850.0 million and a revolving credit facility of $500.0 million. We are exposed to changes in interest rates on all of these variable-rate debt instruments.

The term loan A facility currently bears interest based on Adjusted Term SOFR plus an applicable margin of 2.00% per year. The term loan B facility currently bears interest based on Adjusted Term SOFR subject to a 0.50% floor plus an applicable margin of 2.50%. We used a sensitivity analysis to measure our interest rate risk exposure. If the SOFR rate increases or decreases 1% from June 30, 2024, the additional annual interest expense or savings related to the term loans would amount to approximately $16.2 million.

In order to mitigate and offset a portion of this interest rate risk exposure associated with these debt instruments we entered into interest rate swaps to achieve a targeted mix of fixed and variable-rate debt. The term loan A swap has an initial notional amount of $300.0 million, reducing to $150.0 million evenly on a quarterly basis through its final maturity on March 30, 2027 and we will pay a fixed rate of 1.32% and will receive the greater of 3-month USD SOFR or (0.15)%. The term loan B swap has an initial notional amount of $750.0 million, reducing to $46.9 million evenly on a quarterly basis through its final maturity on March 30, 2026 and we will pay a fixed rate of 1.17% and will receive the greater of 3-month USD SOFR or 0.35%. In June 2023, we entered into an additional swap with a notional amount of $300.0 million with a maturity date of June 30, 2028 and we will pay a fixed rate of 3.8765% starting on June 30, 2023 and receive 3-month USD SOFR. See Note 7: Derivatives and Hedging Activities to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q.

Accounts Receivable Purchase Program

Additionally, our accounts receivable purchase program with BMO bears discount rates tied to SOFR. These variable discount rates would affect the amount of factoring costs we incur, and the amount of cash we receive upon the sales of accounts receivable under this program. A 1% change in SOFR rates on the accounts receivable sales would not have a material impact on our results of operations. See Note 20: Accounts Receivables Purchase Program to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q.

Foreign Currency Exchange Rate Risk

We transact business globally in multiple currencies, some of which are considered volatile. Our international revenues and expenses and working capital positions denominated in these foreign currencies expose us to the risk of fluctuations in foreign currency exchange rates against the U.S. dollar. As the receiver of foreign currencies we are adversely affected by the strengthening of the U.S. dollar and other currencies relative to the operating unit functional currency. Our hedging policy attempts to manage these risks to an acceptable level. We manage our foreign currency exposures on a consolidated basis to take advantage of net exposures and natural offsets, which are then further reduced by the gains and losses of our hedging instruments. Gains and losses on the hedging instruments offset gains and losses on the hedged forecasted transactions and reduce the earnings volatility related to foreign exchange, however we do not hedge our entire foreign exchange exposure and are still subject to earnings volatility due to foreign currency exchange rate risk.

Our foreign currency exchange forward contracts hedge a portion of our forecasted foreign currency-denominated revenues and expenses (principally Mexican Pesos, Euros, Czech Koruna, Japanese Yen, Swedish Krona, Danish Krone, Chinese Renminbi, Canadian Dollar, U.S. Dollar, and Australian Dollar) that differ from the functional currency of the operating unit. These derivative contracts are designated and qualify as cash flow hedges (see Note 7: Derivatives and Hedging Activities to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q). We performed a sensitivity analysis to estimate changes in the fair value of our foreign exchange derivatives due to potential changes in near-term foreign currency exchange rates. At June 30, 2024, the effect of a hypothetical 10% weakening in the actual foreign currency exchange rates used for the applicable currencies would result in an estimated decrease in the fair value of these outstanding derivative contracts by approximately $2.7 million.

Item 4. Controls and Procedures

Limitations on Effectiveness of Controls and Procedures

In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints, and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is 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 Quarterly Report. Based on the evaluation, our principal executive officer and principal financial officer concluded that, as of June 30, 2024, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended June 30, 2024 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

Table of Contents

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

Item 1A. Risk Factors

In evaluating an investment in our common stock, investors should consider carefully, among other things, the risk factors previously disclosed in Part I, Item 1A of our 2023 Annual Report on Form 10-K, as well as the information contained in this Quarterly Report, in each case as updated by our periodic reports and registration statements filed with the SEC. There have been no material changes to the risk factors disclosed in Part I. Item 1A of our 2023 Annual Report on Form 10-K.

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

Purchase of Equity Securities

The following is a summary of our stock repurchasing activity during the second quarter of 2024:

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of a publicly announced program	Approximate dollar value that may yet be purchased under the program[(1)]
04/01/2024 — 04/30/2024	—	$ —	—	$ 100,000,000
05/01/2024 — 05/31/2024	—	$ —	—	$ 100,000,000
06/01/2024 — 06/30/2024	—	$ —	—	$ 100,000,000
Second quarter of 2024 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 and any restrictions on share purchases under our debt agreements, 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. We are limited on share purchases in accordance with the terms and conditions of our Credit Agreement (see Note 16: Long-Term Debt in our accompanying condensed consolidated financial statements).

Item 5. Other Information

(a) None

(b) None

(c)

During the three months ended June 30, 2024, none of the Company's directors or "officers" (as defined in Rule 16a-1(f) under the Exchange Act) adopted, modified, or terminated a "Rule 10b5-1 trading arrangement" or “non-Rule 10b5-1 trading arrangement,” each as defined in Item 408(a) of Regulation S-K.

Item 6. Exhibits

Exhibit Number	Exhibit Description	Filed/ Furnished Herewith
2.1	Share Sale and Purchase Agreement, dated September 8, 2021, by and between Smiths Group International Holdings Limited, a private limited company incorporated in England and Wales, and ICU Medical, Inc., a Delaware corporation. Filed as an Exhibit to Registrant's Current Report on Form 8-K filed on September 8, 2021 (File No. 001-34634).	
2.2	Put Option Deed from ICU Medical, Inc., a Delaware corporation to Smiths Group International Holdings Limited, a private limited company incorporated in England and Wales. Filed as an Exhibit to Registrant's Current Report on Form 8-K filed on September 8, 2021 (File No. 001-34634).	
3.1	Registrant's Certificate of Incorporation, as amended and restated. Filed as an Exhibit to Registrant's Current Report on Form 8-K filed on June 10, 2014 (File No. 001-34634).	
3.2	Registrant's Bylaws, as amended and restated. Filed as an Exhibit to Registrant's Current Report on Form 8-K filed on November 3, 2023 (File No. 001-34634).	
4.1	Description of Securities Registered Under Section 12 of the Exchange Act. Filed as an Exhibit to Registrant's Annual Report on Form 10-K for the year ended December 31, 2019, filed on March 2, 3020 (File No. 001-34634).	
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	*
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	*
32.1	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	**
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.	*
101.SCH	XBRL Taxonomy Extension Schema Document	*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	*
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)	*

* Filed herewith.

** Furnished herewith.

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: August 7, 2024

Brian M. Bonnell
Chief Financial Officer
(Principal Financial Officer and Authorized Officer)

Exhibit 31.1

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

I, Vivek Jain, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: August 7, 2024	/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: August 7, 2024	/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 June 30, 2024 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, as amended; and

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

August 7, 2024	/s/ Vivek Jain
Date	Vivek Jain Chief Executive Officer (principal executive officer)

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

In connection with the Quarterly Report of ICU Medical, Inc. (the “Company”) on Form 10-Q for the period ended June 30, 2024 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, as amended; and

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

August 7, 2024	/s/ Brian M. Bonnell
Date	Brian M. Bonnell Chief Financial Officer (principal financial officer)