VERTEX PHARMACEUTICALS INC / MA
Form S-8
May 25, 2006

As filed with the Securities and Exchange Commission on May 25, 2006

REGISTRATION NO. 333 -

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM S-8

REGISTRATION STATEMENT
under the
SECURITIES ACT OF 1933

VERTEX PHARMACEUTICALS INCORPORATED

(*Exact Name of Registrant as Specified in Its Charter)*

MASSACHUSETTS	**04-3039129**
(State or Other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification No.)*

130 WAVERLY STREET
CAMBRIDGE, MASSACHUSETTS 01239-4242
(*Address, Including Zip Code, of Principal Executive Offices*)

2006 STOCK AND OPTION PLAN
(Full Titles of the Plan)

JOSHUA S. BOGER, PH.D.
PRESIDENT AND CHIEF EXECUTIVE OFFICER
VERTEX PHARMACEUTICALS INCORPORATED
130 WAVERLY STREET
CAMBRIDGE, MASSACHUSETTS 02139-4242
(617) 444-6100
(*Name, Address and Telephone Number, Including Area Code, of Agent For Service*)

CALCULATION OF REGISTRATION FEE

Title of Securities to be Registered	**Amount to be Registered(1)**	**Proposed Maximum Offering Price Per Unit(2)**	**Proposed Maximum Aggregate Offering Price(2)**	**Amount of Registration Fee**
Common Stock, $.01 par value	7,307,100 shares	$29.79	$217,678,509	$23,292
Rights to purchase Series A Junior Participating Preferred Stock	(3)	(3)	(3)	None

(1) The number of shares of common stock, par value $.01 per share (Common Stock), stated above consists of the aggregate number of shares which may be issued (i) upon the exercise of options which may be granted under the Vertex Pharmaceuticals Incorporated 2006 Stock and Option Plan (the Plan); (ii) in the form of restricted stock awards under the terms of the Plan; (iii) in the form of stock grants under the Plan; or (iv) in the form of stock-based compensation under the Plan. The maximum number of shares that may be issued under the Plan is subject to adjustment in accordance with certain anti-dilution and other provisions of the Plan. Accordingly, pursuant to Rule 416 under the Securities Act of 1933, as amended (the Securities Act), this Registration Statement covers, in addition to the number of shares stated above, an indeterminate number of shares which may be subject to grant or otherwise issuable after the operation of any such anti-dilution and other provisions.

(2) This calculation is made solely for the purpose of determining the registration fee pursuant to the provisions of Rule 457(c) and (h) under the Securities Act. The fee is calculated on the basis of the average of the high and low sale prices per share of the Common Stock on the Nasdaq Stock Market as of a date (May 22, 2006) within five business days prior to filing this Registration Statement.

(3) No separate consideration will be received for the Rights to purchase Series A Junior Participating Preferred Stock (Rights).

EXPLANATORY NOTE

In accordance with the instructional Note to Part I of Form S-8 as promulgated by the Securities and Exchange Commission, the information specified by Part I of Form S-8 has been omitted from this Registration Statement on Form S-8 for offers of Common Stock pursuant to the Plan.

PART II

INFORMATION REQUIRED IN THE REGISTRATION STATEMENT

Item 3. Incorporation of Certain Documents by Reference.

The following documents filed by the Registrant with the Commission are incorporated herein by reference:

(a) The Registrant s Annual Report on Form 10-K for the fiscal year ended December 31, 2005 (filing date March 16, 2006).

(b) The Registrant s Quarterly Report on Form 10-Q for the quarter ended March 31, 2006 (filing date May 10, 2006).

(c) The Registrant s Current Reports on Form 8-K filed on January 12, 2006; February 7, 2006 (as amended on February 13, 2006); March 8, 2006; March 23, 2006; and May 15, 2006.

(d) Portions of our definitive Proxy Statement on Schedule 14A (filing date March 31, 2006) that are deemed filed with the Commission under the Exchange Act;

(e) The description of the Common Stock and the Rights contained in the Registrant s Registration Statement on Form 8-A (filing date May 30, 1991), as amended from time to time.

All reports and other documents filed by the Registrant after the date hereof pursuant to Sections 13(a), 13(c), 14 and 15(d) of the Exchange Act prior to the filing of a post-effective amendment which indicates that all securities offered hereby have been sold or which deregisters all securities then remaining unsold, shall be deemed to be incorporated by reference herein and to be part hereof from the date of filing of such reports and documents.

Item 4. Description of Securities.

Not applicable.

Item 5. Interests of Named Experts and Counsel.

The validity of the issuance of the shares of Common Stock registered under this Registration Statement has been passed upon for the Registrant by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.

Item 6. Indemnification of Directors and Officers.

Part D of Article 6 of the Articles of Organization of the Registrant provides that no director of the Registrant shall be personally liable to the Registrant or its stockholders for monetary damages for any breach of fiduciary duty as a director. The Articles of Organization provide, however, that to the extent provided by applicable law it will not eliminate or limit the liability of a director (i) for any breach of the director s duty of loyalty to the Registrant or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) the approval of certain distributions and loans prohibited by law

or (iv) for any transactions from which the director derived an improper personal benefit.

Article V of the Registrant s By-laws provides that the Registrant shall indemnify each of its directors and officers (including persons who serve at the Registrant s request as a director, officer, or trustee of another organization in which the Registrant has any interest, direct or indirect, as a stockholder, creditor, or otherwise or who serve at the Registrant s request in any capacity with respect to any employee benefit plan) against all liabilities and expenses, including amounts paid in satisfaction of judgments, in compromise, or as fines and penalties, and counsel fees reasonably incurred by such director or officer in connection with the defense or disposition of any action, suit, or other proceeding, whether civil or criminal, in which such director or officer may be involved or with which such person may be threatened, while in office or thereafter, by reason of such person s being or having been such a director, officer, or trustee, except with respect to any matter as to which such director or officer shall have been adjudicated in any proceeding not to have acted in good faith in the reasonable belief that such director s or officer s action was in the best interest of the Registrant or, to the extent that such matter relates to service with respect to an employee benefit plan, in the best interest of the participants or beneficiaries of such employee benefit plan.

As to any matter disposed of by a compromise payment by any such person, pursuant to a consent decree or otherwise, Article V of the Registrant s By-laws provides that no indemnification shall be provided to such person for such payment or for any other expenses unless such compromise has been approved as in the best interests of the Registrant, after notice that it involves such indemnification (i) by a disinterested majority of the directors then in office or (ii) by a majority of the disinterested directors then in office provided there has been obtained an opinion in writing of independent legal counsel to the effect that such director or officer appears to have acted in good faith in the reasonable belief that such person s action as in the best interest of the Registrant, or (iii) by the holders of a majority of the outstanding stock at the time entitled to vote for directors, voting as a single class, exclusive of any stock owned by any interested director or officer.

Article V of the Registrant s By-laws provides that expenses, including counsel fees, reasonably incurred by any director or officer in connection with the defense or disposition of any such action, suit or other proceeding may be paid from time to time by the Registrant at the discretion of a majority of the disinterested directors then in office, in advance of the final disposition thereof, upon receipt of an undertaking by such director or officer to repay the Registrant the amounts so paid if it is ultimately determined that indemnification for such expenses is not authorized under Article V of the By-laws, which undertaking may be accepted by the Registrant without reference to the financial ability of such director or officer to make repayment.

Article V of the Registrant s By-laws gives the Board of Directors of the Registrant the power to authorize the purchase and maintenance of insurance, in such amounts as the Board of Directors may from time to time deem appropriate, on behalf of any person who is or was a director, officer, or agent of the Registrant, or who is or was serving at the request of the Registrant as a director, officer or agent of another organization in which the Registrant has any interest, direct or indirect, as a shareholder, creditor or otherwise, or with respect to any employee benefit plan, against any liability incurred by such person in any such capacity, or arising out of such person s status as such agent, whether or not such person is entitled to indemnification by the Registrant pursuant to Article V or otherwise and whether or not the Registrant would have the power to indemnify the person against such liability.

Subdivision E of Part 8 of the Massachusetts Business Corporation Act (the MBCA) authorizes the provisions, described above, contained in Part D, Article 6 of the Articles of Organization of the Registrant.

Sections 8.30 and 8.42 of the MBCA provide that if an officer or director discharges his or her duties in good faith and with the care that a person in a like position would reasonably exercise under similar circumstances and in a manner the officer or director reasonably believes to be in the best interests of the corporation, he or she will not be liable for such actions.

Item 7. Exemption from Registration Claimed.

Not applicable.

Item 8. Exhibits.

3.1	Restated Articles of Organization of Vertex, filed with the Secretary of State of The Commonwealth of Massachusetts on July 31, 1991 (filed as Exhibit 3.1 to Vertex s Annual Report on Form 10-K for the year ended December 31, 1997 [File No. 000-19319] and incorporated herein by reference).
3.2	Certificate of Vote of Directors Establishing a Series of a Class of Stock, filed with the Secretary of State of The Commonwealth of Massachusetts on July 31, 1991 (filed as Exhibit 3.3 to Vertex s Annual Report on Form 10-K for the year ended December 31, 1997 [File No. 000-19319] and incorporated herein by reference).
3.3	Articles of Amendment of the Articles of Organization of Vertex, filed with the Secretary of State of The Commonwealth of Massachusetts on May 17, 1995 (filed as Exhibit 3.2 to Vertex s Registration Statement on Form S-3 [Registration No. 333-123731] and incorporated herein by reference).
3.4	Articles of Amendment of the Articles of Organization of Vertex, filed with the Secretary of State of The Commonwealth of Massachusetts on June 4, 1997 (filed as Exhibit 3.2 to Vertex s Annual Report on Form 10-K for the year ended December 31, 1997 [File No. 000-19319] and incorporated herein by reference).
3.5	Articles of Amendment of the Articles of Organization of Vertex, filed with the Secretary of State of The Commonwealth of Massachusetts on May 21, 2001 (filed as Exhibit 3.4 to Vertex s Registration Statement on Form S-4 [Registration No. 333-61480] and incorporated herein by reference).
3.6	By-laws of Vertex, as amended and restated as of May 11, 2005 (filed as Exhibit 3.1 to Vertex s Quarterly Report on Form 10-Q for the quarter ended June 30, 2005 [File No. 000-19319] and incorporated herein by reference).
4.1	Specimen stock certificate (filed as Exhibit 4.1 to Vertex s Registration Statement on Form S-1 [Registration No. 33-40966] and incorporated herein by reference).
4.2	Rights Agreement, dated as of July 1, 1991 (filed as Exhibit 4.2 to Vertex s Registration Statement on Form S-1 [Registration No. 33-40966] and incorporated herein by reference).

4.3	First Amendment to Rights Agreement, dated as of February 21, 1997 (filed as Exhibit 4.3 to Vertex s Annual Report on Form 10-K for the year ended December 31, 1996 [File No. 000-19319] and incorporated herein by reference).
4.4	Second Amendment to Rights Agreement, dated as of June 30, 2001 (filed as Exhibit 4.4 to Vertex s Quarterly Report on Form 10-Q for the quarter ended June 30, 2001 [File No. 000-19319] and incorporated herein by reference).
5.1	Opinion of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. as to the legality of shares being registered.
10.1	2006 Stock and Option Plan (filed as Exhibit 10.1 to Vertex s Current Report on Form 8-K dated May 15, 2006 [File No. 000-19319] and incorporated herein by reference).
10.2	Form of Stock Option Agreement (filed as Exhibit 10.2 to Vertex s Current Report on Form 8-K dated May 15, 2006 [File No. 000-19319] and incorporated herein by reference).
10.3	Form of Restricted Stock Award (filed as Exhibit 10.3 to Vertex s Current Report on Form 8-K dated May 15, 2006 [File No. 000-19319] and incorporated herein by reference).
10.4	Form of Restricted Stock Award (Performance Accelerated Restricted Stock) (filed as Exhibit 10.4 to Vertex s Current Report on Form 8-K dated May 15, 2006 [File No. 000-19319] and incorporated herein by reference).
23.1	Consent of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. (included in opinion of counsel filed as Exhibit 5.1).
23.2	Consent of Independent Registered Public Accounting Firm PricewaterhouseCoopers LLP.
23.3	Consent of Independent Registered Public Accounting Firm Ernst & Young LLP.
24.1	Power of Attorney to file future amendments (set forth on the signature page of this Registration Statement).

Item 9. Undertakings.

(a) The undersigned Registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the Registration Statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the Registration Statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would

not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the Calculation of Registration Fee table in the effective Registration Statement.

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the Registration Statement or any material change to such information in the Registration Statement;

Provided, however, that paragraphs (a)(1)(i) and (a)(1)(ii) do not apply if the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed with or furnished to the Commission by the Registrant pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in this Registration Statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(b) The undersigned Registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the Registrant s annual report pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 that is incorporated by reference in this Registration Statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(c) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

SIGNATURES

The Registrant. Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-8 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Cambridge, Massachusetts on May 25, 2006.

vertex pharmaceuticals incorporated

By /s/ Joshua S. Boger
Joshua S. Boger
President and Chief Executive Officer

POWER OF ATTORNEY

Each person whose signature appears below constitutes and appoints Ian F. Smith and Valerie Andrews and each of them singly, his/her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution in each of them singly, for him/her and in his/her name, place and stead, and in any and all capacities, to sign any and all amendments (including post-effective amendments) to this Registration Statement on Form S-8 of Vertex Pharmaceuticals Incorporated, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting to the attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite or necessary to be done in or about the premises, as full to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that the attorneys-in-fact and agents or any of each of them or their substitute may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	**Title**	**Date**
/s/ Joshua S. Boger Joshua S. Boger	President, Chief Executive Officer and Director (principal executive officer)	May 25, 2006
/s/ Ian F. Smith Ian F. Smith	Executive Vice President and Chief Financial Officer (principal financial officer)	May 25, 2006
/s/ Johanna Messina Power Johanna Messina Power	Vice President and Controller (principal accounting officer)	May 25, 2006

/s/ Charles A. Sanders Charles A. Sanders	Chairman of the Board of Directors	May 25, 2006
/s/ Eric K. Brandt Eric K. Brandt	Director	May 25, 2006
/s/ Roger W. Brimblecombe Roger W. Brimblecombe	Director	May 25, 2006
/s/ Stuart J. M. Collinson Stuart J. M. Collinson	Director	May 25, 2006
/s/ Eugene H. Cordes Eugene H. Cordes	Director	May 25, 2006

OPERATING EXPENSES:		
Selling, general and administrative	11,999	10,591
Research and development	1,851	1,569
Total operating expenses, net	13,850	12,160
Income from operations	5,366	9,190
OTHER INCOME	9,399	761
Income before income taxes and minority interest	14,765	9,951
PROVISION FOR INCOME TAXES	(5,020)	(3,728)
MINORITY INTEREST	70	143
NET INCOME	$ 9,815	$ 6,366
NET INCOME PER SHARE		
Basic	$ 0.67	$ 0.45
Diluted	$ 0.63	$ 0.41
WEIGHTED AVERAGE NUMBER OF SHARES		
Basic	14,581,699	14,218,346
Diluted	15,614,711	15,394,787

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

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

	Three Months Ended March 31, 2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 9,815	$ 6,366
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,566	2,531
Provision for doubtful accounts	57	209
Minority interest	(70)	(143)
Stock compensation	181	126
Cash provided (used) by changes in operating assets and liabilities		
Accounts receivable	(306)	(3,130)
Inventories	151	(1,215)
Prepaid expenses and other assets	(560)	672
Accounts payable	(550)	1,248
Accrued liabilities	327	(764)
Prepaid and deferred income taxes	4,769	2,762
Net cash provided by operating activities	16,380	8,662
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(7,064)	(3,577)
Proceeds from finance loan repayments	23	310
Purchases of liquid investments	(17,790)	(12,096)
Proceeds from sale of liquid investments	11,729	5,300
Net cash used in investing activities	(13,102)	(10,063)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	602	2,282
Proceeds from employee stock purchase plan	742	576
Tax benefits from exercise of stock options	140	852
Purchase of treasury stock	(8,613)	
Net cash provided (used) by financing activities	(7,129)	3,710
Effect of exchange rate changes on cash	4	8
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,847)	2,317
CASH AND CASH EQUIVALENTS, beginning of period	13,153	6,854
CASH AND CASH EQUIVALENTS, end of period	$ 9,306	$ 9,171

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

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

	Three Months ended March 31,	
	2007	2006
Net income	$ 9,815	$ 6,366
Other comprehensive income, net of tax:		
Foreign currency translation adjustment	50	47
Comprehensive income	$ 9,865	$ 6,413

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

ICU Medical, Inc.
Notes to Condensed Consolidated Financial Statements
March 31, 2007
(Amounts in tables in thousands except share and per share data)
(unaudited)

Note 1: Basis of Presentation: The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and pursuant to the rules and regulations of the Securities and Exchange Commission and reflect all adjustments, which consist 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 Company s 2006 Annual Report to Stockholders.

ICU Medical, Inc. (the Company), a Delaware corporation, operates principally in one business segment engaged in the development, manufacturing and marketing of disposable medical devices. The Company s devices are sold principally to distributors and medical product manufacturers throughout the United States and a portion internationally. All subsidiaries are wholly or majority owned and included in the consolidated financial statements. All intercompany balances and transactions have been eliminated.

Note 2: New Accounting Pronouncements: Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157), defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. The Company will adopt the provisions of SFAS 157 effective January 1, 2008. The Company does not expect SFAS 157 to have a material impact on our results of operations, financial position, or cash flows.

In February 2007, the Financial Accounting Standards Board (FASB) issued SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS 159 will be effective on January 1, 2008. The provisions of SFAS 159 are elective, and the Company has not determined whether or to what extent we may implement its provisions or how if implemented, it might affect the Company s financial statements.

Note 3: Legal Settlement: In January 2007, the Company settled litigation against a firm of attorneys that formerly represented the Company in patent litigation matters for $8.0 million. Payment was received in January 2007 and is included in Other Income in the Condensed Consolidated Statements of Income for the quarter ended March 31, 2007.

Note 4: FIN 48 Uncertain Tax Positions: In July 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes , an interpretation of FASB Statement No. 109 (FIN 48), provides criteria for the recognition, measurement, presentation and disclosure of uncertain tax positions. A tax benefit from an uncertain income tax position may be recognized only if it is more-likely-than-not that the position is sustainable based on its technical merits. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006.

The Company adopted the provisions of FIN 48 on January 1, 2007. The total amount of unrecognized tax benefits as of the date of adoption was $2.5 million that, if recognized, would affect the effective tax rate. The Company does not anticipate that unrecognized tax benefits will significantly increase or decrease within 12 months of the reporting date.

The Company recognizes interest and penalties related to unrecognized tax benefits and penalties in the tax provision.

The Company is subject to taxation in the United States and various states and foreign jurisdictions. Our United States federal income tax returns for tax years since 2000 are subject to examination by the Internal Revenue Service. Our principal state income tax returns for tax years since 1998 are subject to examination by the state tax authorities.

Note 5: **Inventories** consisted of the following:

	3/31/07	12/31/06
Raw material	$ 9,998	$ 9,996
Work in process	3,238	3,258
Finished goods	2,940	3,061
Total	$ 16,176	$ 16,315

Note 6: **Property and equipment** consisted of the following:

	3/31/07	12/31/06
Machinery and equipment	$ 39,583	$ 38,373
Land, building and building improvements	38,577	38,336
Molds	12,229	10,959
Computer equipment and software	7,578	7,257
Furniture and fixtures	2,209	2,143
Construction in progress	9,163	5,250
Total property and equipment, cost	109,339	102,318
Accumulated depreciation	(45,378)	(43,281)
Net property and equipment	$ 63,961	$ 59,037

Note 7: **Net income per share** is computed by dividing net income by the weighted average number of common shares outstanding. Diluted net income per share is computed by dividing net income by the weighted average number of common shares outstanding plus dilutive securities. Dilutive securities are outstanding common stock options (excluding stock options with an exercise price in excess of the average market value for the period), less the number of shares that could have been purchased with the proceeds from the exercise of the options, using the treasury stock method, and were 1,033,012 and 1,176,441 for the three months ended March 31, 2007 and 2006, respectively. Options that are antidilutive because their exercise price exceeded the average market price of its common stock for the period approximated 40,000 and 200,000 for the three months ended March 31, 2007 and 2006, respectively.

Note 8: **Income Taxes:** Income taxes were accrued at an effective tax rate of 34.0% in the first quarter of 2007 as compared to 37.5% in the first quarter of 2006. The effective tax rate differs from that computed at the federal statutory rate of 35% principally because of the effect of state income taxes, and in 2006 losses of a subsidiary not consolidated for income tax purposes, partially offset by the effect of tax-exempt investment income, state and federal tax credits, and deductions for Domestic Production Activities.

Note 9: Major customers: The Company had revenues equal to ten percent or greater of total net revenues from one customer, Hospira, Inc. Such revenues were 74% and 77% in the three months ended March 31, 2007 and 2006, respectively.

Note 10: Commitments and Contingencies: The Company is from time to time involved in various legal proceedings, either as a defendant or plaintiff, most of which are routine litigation in the normal course of business. The Company believes that the resolution of the legal proceedings in which it is involved will not have a material adverse effect on its financial position or results of operations.

In the normal course of business, the Company has agreed to indemnify officers and directors of the Company, to the maximum extent permitted under Delaware law and to indemnify customers as to certain intellectual property matters related to sales of the Company s products. There is no maximum limit on the indemnification that may be required under these agreements. The Company has never incurred, nor does it expect to incur, any liability for indemnification, and therefore, the Company has not recorded any liability for these arrangements in its financial statements and does not expect to incur any. Except for indemnification agreements, the Company does not have any off balance sheet arrangements .

Management s Discussion and Analysis of Financial Condition and Results of Operations

We are a leader in the development, manufacture and sale of proprietary, disposable medical connection systems for use in intravenous (I.V.) therapy applications. Our devices are designed to protect patients from catheter related bloodstream infections and healthcare workers from exposure to infectious diseases through accidental needlesticks. We are also a leader in the production of custom I.V. systems and we incorporate our proprietary products in many of those custom I.V. systems. With the acquisition of Hospira s Salt Lake City plant in May 2005 and commencement of production under a twenty-year Manufacturing, Commercialization and Development Agreement with Hospira (MCDA), we are now also a significant manufacturer of critical care medical devices, including catheters, angiography kits and cardiac monitoring systems.

Critical Accounting Policies

Our significant accounting policies are summarized in Note 1 to the Consolidated Financial Statements included in our 2006 Annual Report to Shareholders. In preparing our financial statements, we make estimates and assumptions that affect the expected amounts of assets and liabilities and disclosure of contingent assets and liabilities. We apply our accounting policies on a consistent basis. As circumstances change, they are considered in our estimates and judgments, and future changes in circumstances could result in changes in amounts at which assets and liabilities are recorded.

Investment securities are all marketable and considered available for sale . See Item 3. Quantitative and Qualitative Disclosures about Market Risk. Under our current investment policies, the securities in which we invest have no significant difference between cost and fair value. If our investment policies were to change, and there were differences between cost and fair value, that difference, net of tax effect, would be reflected as a separate component of stockholders equity.

We record sales and related costs when ownership of the product transfers to the customer and collectibility is reasonably assured. Under the terms of all our purchase orders, ownership transfers on shipment. If there are significant doubts at the time of shipment as to the collectibility of the receivable, we defer recognition of the sale in revenue until the receivable is collected. Most of our customers are medical product manufacturers or distributors, although a few are end-users. Our only post-sale obligations are warranty and certain rebates. We warrant products against defects and have a policy permitting the return of defective products. We record warranty returns as an expense and amounts have been insignificant. With certain exceptions, customers do not retain any right of return and there is no price protection with respect to unsold products. Returns from customers with return rights have not been significant. We accrue rebates as a reduction in revenue based on agreements and historical experience. Adjustments of estimates of warranty claims, rebates or returns, which have not been, and are not expected to be material, affect current operating results when they are determined.

Accounts receivable are stated at net realizable value. An allowance is provided for estimated collection losses based on specific past due accounts for which we consider collection to be doubtful. We rely on prior payment trends, financial status and other factors to estimate the cash which ultimately will be received. Such amounts cannot be known with certainty at the financial statement date. We regularly review individual past due balances for collectibility. Loss exposure is principally with international distributors (for whom normal payment terms are long in comparison to those of our other customers and, to a lesser extent, domestic distributors). Many of these international distributors are relatively small and we are vulnerable to adverse developments in their businesses that can hinder our collection of amounts due. If actual collection losses exceed expectations, we could be required to accrue additional bad debt expense, which could have an adverse effect on our operating results in the period in which the accrual occurs.

Inventories are stated at the lower of cost (first in, first out) or market. We need to carry many components to accommodate our rapid product delivery, and if we misestimate demand or if customer requirements change, we may have components in inventory that we may not be able to use. Most finished products are made only after we receive orders except for certain standard (non-custom) products which we will carry in inventory in expectation of future orders. For products in inventory, we need to estimate what may not be saleable. We regularly review inventory for slow moving items and write off all items we do not expect to use in manufacturing, or finished products we do not expect to sell. If actual usage of components or sales of finished goods inventory is less than our estimates, we could be required to write off additional inventory, which could have an adverse effect on our operating results in the period in which the write-off occurs.

Property and equipment is carried at cost and depreciated on the straight-line method over the estimated useful lives. The estimates of useful lives are significant judgments in accounting for property and equipment, particularly for molds and automated assembly machines that are custom made for us. We may retire them on an accelerated basis if we replace them with larger or more technologically advanced tooling. The remaining useful lives of all property and equipment are reviewed regularly and lives are adjusted or assets written off based on current estimates of future use. As part of that review, property and equipment is reviewed for other indicators of impairment. An unexpected shortening of useful lives of property and equipment that significantly increases depreciation provisions, or other circumstances causing us to record an impairment loss on such assets, could have an adverse effect on our operating results in the period in which the related charges are recorded.

New Accounting Pronouncements

Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157), defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. We will adopt the provisions of SFAS 157 effective January 1, 2008. We do not expect SFAS 157 to have a material impact on our results of operations, financial position, or cash flows.

In February 2007, the FASB issued SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS 159 will be effective on January 1, 2008. The provisions of SFAS 159 are elective, and we have not determined whether and to what extent we may implement its provisions or how if implemented, it might affect our financial statements.

We have implemented all new accounting pronouncements that are in effect and that may impact our consolidated financial statements and do not believe that there are any other new accounting pronouncements that have been issued that might have a material impact on our consolidated financial statements.

Business Overview

Until the late 1990s, our primary emphasis in product development, sales and marketing was disposable medical connectors for use in I.V. therapy, and our principal product was the CLAVE. In the late 1990s, we commenced a transition from a product-centered company to an innovative, fast, efficient, low-cost manufacturer of custom I.V. systems, using processes that we believe can be readily applied to a variety of disposable medical devices. This strategy has enabled us to capture revenue on the entire I.V. delivery system, and not just a component of the system.

We are also increasing our efforts to acquire new products. We made investments in a company developing a new medical device beginning in 2004, acquired Hospira s Salt Lake City, Utah manufacturing facility in May 2005 and entered into the MCDA to produce critical care products for Hospira, and are continuing to seek other opportunities. However, there is no assurance that we will be successful in finding acquisition opportunities, or in acquiring companies or products or that we will successfully integrate them into our existing business.

Custom I.V. systems and new products will be of increasing importance to us in future years. We expect continued growth in our CLAVE products in the U.S., but at a slower percentage growth rate than prior to 2004 because of our large market penetration. We also potentially face substantial increases in competition in our CLAVE business if we are unsuccessful in enforcing our intellectual property rights. Growth for all of our products outside the U.S. could be substantial, although to date it has been relatively modest. Therefore, we are directing increasing product development, acquisition, sales and marketing efforts to custom I.V. systems and other products that lend themselves to customization and new products in the U.S. and international markets, and increasing our emphasis on markets outside the U.S.

Our largest customer is Hospira. Our relationship with Hospira has been and will continue to be of singular importance to our growth. In the first quarter of 2007 and years ended 2006, 2005 and 2004, our revenues from U.S. sales to Hospira were 71%, 74%, 73% and 53%, respectively. We expect this percentage will be maintained in the future as a result of sales of CLAVE products, custom I.V. sets, new products and critical care products to Hospira. Hospira has a significant share of the I.V. set market in the U.S., and provides us access to that market. We expect that Hospira will be important to our growth for CLAVE, custom products, and our other products in the U.S. and also outside the U.S.

On May 1, 2005, we acquired Hospira s Salt Lake City manufacturing facility, related capital equipment and entered into a 20-year MCDA with Hospira, under which we produce for sale, exclusively to Hospira, substantially all the products, primarily critical care, that Hospira had manufactured at that facility. Hospira retains commercial responsibility for the products we are producing, including sales, marketing, pricing, distribution, customer contracts, customer service and billing. The majority of the products under the MCDA are invasive monitoring and angiography products, which include medical devices such as catheters, cardiac monitoring systems and angiography kits. Sales of products manufactured under the MCDA, including custom products, were $15.4 million and $19.2 million in the first quarter of 2007 and 2006, respectively. Excluding sales of products we no longer manufacture, sales in the first quarter of 2007 and 2006 were $15.4 million and $14.9 million, respectively. We have also committed to fund certain research and development to improve critical care products and develop new products for sale to Hospira and to provide sales specialist support. Our prices and our gross margins on the products we sell to Hospira under the MCDA are based on cost savings that we are able to achieve in producing those products over Hospira s cost to manufacture those same products at the purchase date. We record revenue net of any such reductions. There is no assurance as to the amounts of future sales or profits under the MCDA.

A substantial portion of the invasive monitoring and angiography critical care products are custom products designed to meet the specific needs of the customer. We believe we can significantly expand the market for custom invasive monitoring and angiography products through cost savings using our proprietary low-cost manufacturing techniques both in Salt Lake City and Mexico.

We believe that achievement of our growth objectives, both within the U.S., and outside the U.S., will require increased efforts by us in sales and marketing and product development in these markets.

There is no assurance that we will be successful in implementing our growth strategy. The custom products market is small, and we could encounter customer resistance to custom products. Further, we could encounter increased competition as other companies see opportunity. Product development or acquisition efforts may not succeed, and even if we do develop or acquire products, there is no assurance that we will achieve profitable sales of such products. An adverse change in our relationship with Hospira, or a deterioration of Hospira s position in the market, could have an adverse effect on us. Increased expenditures for sales and marketing and product acquisition and development may not yield desired results when expected, or at all. While we have taken steps to control those risks, there are certain of those risks which may be outside of our control, and there is no assurance that steps we have taken will succeed.

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

Product Line	Three months ended March 31, 2007		2006		Fiscal Year Ended 2006		2005		2004	
CLAVE	35	%	33	%	34	%	40	%	47	%
Custom Products	31	%	25	%	28	%	27	%	35	%
Critical Care (excluding custom products)	25	%	24	%	25	%	20	%		
CLC2000®	3	%	3	%	3	%	3	%	4	%
Other Products	4	%	12	%	9	%	8	%	10	%
License, royalty and revenue share	2	%	3	%	1	%	2	%	4	%
Total	**100**	**%**	**100**	**%**	**100**	**%**	**100**	**%**	**100**	**%**

Critical care, including critical care custom products accounted for 32% and 30% of total revenue for the quarters ended March 31, 2007 and 2006, respectively. Custom I.V. systems, excluding critical care custom products, were 24% and 18% of total revenues for the quarters ended March 31, 2007 and 2006.

Most custom I.V. systems include one or more CLAVEs. Total CLAVE sales including custom I.V. systems with at least one CLAVE were $26.1 million or 53% of total revenue in the first quarter of 2007 and $22.6 million or 46% of total revenue in the first quarter of 2006.

We sell most of our I.V. administration products to independent distributors and through agreements with Hospira and certain other medical product manufacturers. Most independent distributors handle the full line of our I.V. administration products. We sell our invasive monitoring, angiography and I.V. administration products through three agreements with Hospira (the Hospira Agreements). Under a 1995 agreement, Hospira purchases CLAVE products, principally bulk, non-sterile connectors and the CLC2000 and certain other I.V. therapy products. Under a 2001 agreement, we sell custom I.V. systems to Hospira under a program referred to as SetSource. Our 1995 and 2001 agreements with Hospira provide Hospira with conditional exclusive and nonexclusive rights to distribute all existing ICU Medical products worldwide with terms that extend to 2014. Under the MCDA, a 2005 agreement, we sell Hospira invasive monitoring, angiography and other products which they formerly manufactured at the Salt Lake City facility. The terms of the MCDA extend to 2025. We also sell certain other products to a number of other medical product manufacturers.

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

We believe the success of the CLAVE has motivated, and will continue to motivate others to develop one-piece, swabbable, needleless connectors that may incorporate many of the same functional and physical characteristics as the CLAVE. We are aware of a number of such products. We have patents covering the technology embodied in the CLAVE and intend to enforce those patents as appropriate. If we are not successful in enforcing our patents, competition from such products could adversely affect our market share and prices for our CLAVE products. In response to competitive pressure, we have been reducing prices to protect and expand our market, although overall pricing has been stable recently. The price reductions to date have been more than offset by increased volume after excluding the effect of Hospira s inventory reductions in 2004. We expect that the average price of our CLAVE products may continue to decline. There is no assurance that our current or future products will be able to successfully compete with products developed by others.

We are reducing our dependence on our current proprietary products by introducing new products and systems and acquiring product lines. We are expanding our custom products business through increased sales to medical product manufacturers and independent distributors. Under one of our Hospira Agreements, we manufacture custom I.V. systems for sale by Hospira and jointly promote the products under the name SetSource . In 2004, we made our initial investment in a company developing a new medical device. Sales depend on the success of efforts to develop and market the device, and there can be no certainty that those efforts will succeed. In 2005, we acquired Hospira s Salt Lake City manufacturing facility and entered into the MCDA to produce Hospira s invasive monitoring, angiography products and certain other products they had manufactured at that facility. We also contract with group purchasing organizations and independent dealer networks for inclusion of our non-critical care CLAVE and custom products in the product offerings of those entities. Custom I.V. and custom critical care products accounted for approximately $15.3 million or 31% of total revenue in the first quarter of 2007, including sales under the Hospira SetSource program of approximately $4.6 million and custom critical care products of approximately $3.4 million. We expect continued increases in sales of custom products. There is no assurance that we will be successful in finding acquisition opportunities, or in acquiring companies or products or that we will successfully integrate them into our existing business.

We have an ongoing program to increase systems capabilities, improve manufacturing efficiency, reduce labor costs, reduce time needed to produce an order, and minimize investment in inventory. These include the use of automated assembly equipment for new and existing products and use of larger molds and molding machines. In 2006, we centralized our proprietary molding in Salt Lake City, expanded our production facility in Mexico and transferred the majority of manual assembly previously done in Salt Lake City to our facility in Mexico. A further significant expansion of our facility in Mexico will be completed in the second quarter of 2007. We may establish other production facilities outside the U.S.

We distribute products through three distribution channels. Product revenues for each distribution channel were as follows:

Channel	Three months ended March 31, 2007		2006		Fiscal Year Ended 2006		2005		2004	
Medical product manufacturers	74	%	78	%	76	%	76	%	57	%
Independent domestic distributors	14	%	13	%	14	%	16	%	31	%
International customers	12	%	9	%	10	%	8	%	12	%
Total	**100**	**%**	**100**	**%**	**100**	**%**	**100**	**%**	**100**	**%**

Sales to international customers do not include bulk CLAVE products sold to Hospira in the U.S., but used in I.V. products manufactured by Hospira and exported. Those sales are included in sales to medical product manufacturers. Other sales to Hospira for destinations outside the U.S. are included in sales to international customers.

Quarter-to-quarter comparisons: We present summarized income statement data in Item 1. Financial Statements. The following table shows, for the year 2006 and the first quarter of 2007 and 2006, the percentages of each income statement caption in relation to revenues.

	Year 2006		Quarter ended March 31, 2007		2006	
Revenue						
Net sales	99	%	98	%	97	%
Other	1	%	2	%	3	%
Total revenues	100	%	100	%	100	%
Gross profit	40	%	39	%	44	%
Selling, general and administrative expenses	22	%	24	%	22	%
Research and development expenses	3	%	4	%	3	%
Gain on sale of building	1	%				
Total operating expenses	24	%	28	%	25	%
Income from operations	16	%	11	%	19	%
Other income	2	%	19	%	2	%
Income before income taxes and minority interest	18	%	30	%	21	%
Income taxes	5	%	10	%	8	%
Minority interest	0	%	0	%	0	%
Net income	13	%	20	%	13	%

Quarterly results: The healthcare business in the United States is subject to seasonal fluctuations, and activity tends to diminish somewhat in the summer months of June, July and August, when illness is less frequent than in winter months and patients tend to postpone elective procedures. This typically causes seasonal fluctuations in our business. In addition, we can experience fluctuations in net sales as a result of variations in the ordering patterns of our largest customers, which may be driven more by production scheduling and their inventory levels, and less by seasonality. Our expenses often do not fluctuate in the same manner as net sales, which may cause fluctuations in operating income that are disproportionate to fluctuations in our revenue.

Quarter Ended March 31, 2007 Compared to the Quarter Ended March 31, 2006

Revenues were $48.8 million in the first quarters of 2007 and 2006. Revenues include sales of $0.2 million in 2007 and $5.3 million in 2006 for sales of a product we discontinued manufacturing under the MCDA in October 2006 ($4.2 million for the first quarter of 2006) and the Punctur Guard products that we terminated in January 2007. Without those sales, revenues for the first quarters of 2007 and 2006 were $48.6 million and $43.5 million, respectively, which is an increase of $5.1 million, or 12%.

Distribution channels: Net U.S. sales to Hospira in the first quarter of 2007 were $34.4 million, compared to net sales of $36.6 million in the first quarter of 2006. The first quarter of 2006 includes $4.2 million of sales of a product we discontinued manufacturing under the MCDA in October 2006. Excluding the sales of this product, net sales to Hospira increased $2.0 million, or 6%. This increase was primarily comprised of increased CLAVE sales of $0.7 million, custom I.V. systems, including SetSource of $0.7 million and critical care sales of $0.6 million. All increases are from increased unit sales. Sales to Hospira under the SetSource program approximated $4.5 million in the first quarter of 2007 compared to $3.8 million in the first quarter of 2006, an increase of 19%. We expect an increase in our sales to Hospira in 2007 compared to 2006 from continued growth in sales of custom I.V. systems and a modest percentage growth in critical care, CLAVE and other product sales, although there is no assurance that these expectations will be realized.

Net sales to independent domestic distributors (including Canada) in the first quarter of 2007 were $6.9 million compared to $6.2 million in the first quarter of 2006. Excluding Punctur Guard sales of $0.1 million and $0.8, respectively, net sales were $6.8 million and $5.4 million, respectively, which is an increase of $1.4 million, or 26%. This increase was primarily comprised of a $1.2 million increase in custom I.V. systems from increased unit volume. We expect that sales to domestic distributors will increase principally from growth in custom I.V. system business, with modest growth in sales of other products, including new products, although there is no assurance that these expectations will be realized.

Net sales to international customers (excluding Canada) were $5.7 million in the first quarter of 2007, compared with $4.3 million in the first quarter of 2006, an increase of $1.4 million or 33%. Approximately $1.1 million of this increase was attributable to increased sales in Europe. The principal product line showing an increase was custom I.V. systems, with an increase of $1.1 million due to increased unit sales. We expect significant increases in sales to international customers across all areas and all principal product lines, although there is no assurance that these expectations will be realized.

Product and other revenue: Net sales of CLAVE Products (excluding custom CLAVE I.V. systems) were $17.1 million in the first quarter of 2007 compared to $16.1 million in the first quarter of 2006, an increase of $1.0 million. This increase was primarily due to increased sales to Hospira of $0.7 million and increased international sales of $0.4 million. Sales of CLAVE products and custom I.V. systems including one or more CLAVE connectors combined were $26.1 million in the first quarter of 2007 compared with $22.6 million in the first quarter of 2006. The increase of CLAVE and custom CLAVE product sales was in all our distribution channels.

Sales to Hospira of critical care products, excluding custom critical care products and products we no longer manufacture, were $12.2 million in the first quarter of 2007 compared to $11.8 million in the first quarter of 2006. This increase was due to increased unit sales.

Net sales of custom products, including custom critical care products, were $15.3 million in the first quarter of 2007 compared to $12.0 million in the first quarter of 2006. The $3.3 million and 28% increase over 2006 was principally from increased unit volume sales. The higher revenue was primarily from increases domestic distributor sales of $1.2 million, international sales of $1.1 million, the SetSource program with Hospira of $0.7 million and custom critical care products of $0.3 million.

Net sales of CLC2000 in the first quarter of 2007 and the first quarter of 2006 were $1.3 million and $1.2 million. The increase was from modest increases in purchases from Hospira and other OEM, offset by lower purchases from domestic and international distributors.

Sales of other products were $1.7 million and $6.4 in the first quarters of 2007 and 2006, respectively. The first quarter of 2006 other product sales include $4.2 million of sales of a product we no longer manufacture under the MCDA and $1.1 million of sales of Punctur-Guard products (excluding royalties) which was terminated in the January 2007.

Other revenue consists of license, royalty and revenue share income and was approximately $1.2 million in the first quarter of 2007 and $1.3 million in the first quarter of 2006. We may receive other license fees or royalties in the future for the use of our technology. We give no assurance as to amounts or timing of any future payments, or whether such payments will be received.

Gross margin for the first quarter of 2007 and 2006 was 39% and 44%, respectively. Production and gross margins were relatively stable in the first quarter of 2006. In the fourth quarter of 2006, gross margins declined to 33%. The decline was caused by temporary production inefficiencies in Salt Lake City, production inefficiencies in Mexico because of increased production volumes, turnover of new personnel and changes in production processes and certain non-recurring charges.

The production inefficiencies in Salt Lake City and Mexico continued through the first quarter of 2007 and increased costs in relation to the first quarter of 2006 by approximately $0.4 million and $1.2 million, respectively. These, plus increased freight costs of approximately $0.8 million, because of higher charges from freight companies to cover higher fuel costs and an increase in overseas shipments, caused the gross margin to be reduced to 39% as compared to the first quarter of 2006.

We estimate that all of the inefficiencies will be resolved by the end of the year 2007, if not sooner, and that our gross margins by the end of the year will approximate 45%. However, we give no assurance as to gross margins in 2007 or when all adverse effects of inefficiencies will be eliminated.

Selling, general and administrative expenses **(SG&A)** were $12.0 million, and were 24% of revenues in the first quarter of 2007, compared with $10.6 million and 22% in the first quarter of 2006. The increase in costs was primarily due to $0.9 million of increased compensation and benefit expenses, including the addition of new sales personnel and increased pay rates and travel expense increases of $0.4 million. We expect SG&A in 2007 to be 21% to 23% of revenue. An expected increase in costs for sales personnel is expected to be more than offset by a significant decrease in expenses associated with patent and other litigation. There is no assurance that these expectations will be realized.

Research and development expenses **(R&D)** were $1.9 million and four percent of revenue in the first quarter of 2007 compared to $1.6 million and three percent of revenue in the first quarter of 2006. This increase was primarily from increased R&D activity associated with critical care products. We expect R&D in 2007 to be four to five percent of revenue, although there is no assurance that these expectations will be realized.

Other income was $9.4 million in the first quarter of 2007 and $0.8 million in the first quarter of 2006. Other income in the first quarter of 2007 includes an $8.0 million payment to the Company on settlement of litigation against our former attorneys and $0.3 million payment of another legal settlement. Interest income was $1.1 million in the first quarter of 2007 compared to $0.7 million in the first quarter of 2006. The increase in interest income was primarily due to higher invested balances.

Income taxes were accrued at an effective tax rate of 34.0% in the first quarter of 2007 as compared to 37.5% in the first quarter of 2006. The effective tax rate differs from that computed at the federal statutory rate of 35% principally because of the effect of state income taxes and, in 2006, losses of a subsidiary not consolidated for income tax purposes, partially offset by the effect of tax-exempt investment income, state and federal tax credits, and deductions for Domestic Production Activities. We expect our effective rate to be approximately 34.0% in 2007.

Liquidity and Capital Resources

During the first quarter of 2007, our cash and liquid investments increased by $2.2 million.

Operating Activities: Our cash provided by operating activities tends to increase over time because of our positive operating results. However, it is subject to fluctuations, principally from the impact of integrating new locations from acquisitions, changes in net income, accounts receivable, inventories and the timing of tax payments.

During the first quarter of 2007 and 2006, cash provided by operations was $16.4 million and $8.7 million, respectively. The first quarter of 2007 cash flow from operations was mainly comprised of $9.8 million of net income, including $8.0 million in a legal settlement ($5.3 million in legal settlements net of taxes), depreciation and amortization of $2.6 million, and changes in our operating assets and liabilities of $3.8 million.

Investing Activities: During the first quarter of 2007, we used $13.1 million of cash in investing activities. This was comprised of $7.1 million of purchases of property and equipment which were primarily for the building expansion of our Mexico facility, equipment and mold additions and the build-out of our new data center. We also purchased a net $6.1 million in investments.

We estimate that capital expenditures in 2007, including the building improvements in our Mexico facility and new tooling, will be approximately $22.0 million. Amounts of spending are estimates and actual spending may substantially differ from those amounts.

Financing Activities: Cash provided by stock options and the employee stock purchase plan, including tax benefits was $1.5 million in the first quarter of 2007 to purchase 45,129 shares.

In January 2007, we announced an expanded program to purchase up to at least $20.0 million of our common stock. We purchased $8.6 million of our stock during the first quarter of 2007.

We have a substantial cash and liquid investment position generated from profitable operations and stock sales, principally from the exercise of employee stock options. We maintain this position to fund our growth, meet increasing working capital requirements, fund capital expenditures, and to take advantage of acquisition

opportunities that may arise. Our primary investment goal is capital preservation, as further described in Item 3. Quantitative and Qualitative Disclosures about Market Risk. Our liquid investments have very little credit risk or market risk. We believe that our existing cash and liquid investments along with funds expected to be generated from future operations will provide us with sufficient funds to finance our current operations for the next twelve months.

Off Balance Sheet Arrangements

In the normal course of business, we have agreed to indemnify officers and directors of the Company 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. We have never incurred, nor do we expect to incur, any liability for indemnification. Except for indemnification agreements, we do not have any off balance sheet arrangements.

Contractual Obligations

We have contractual obligations of approximately the amounts set forth in the table below. These amounts exclude purchase orders for goods and services for current delivery. The majority of our purchase orders are blanket purchase orders that represent an estimated forecast of goods and services. We do not have a commitment liability on the blanket purchase orders. Since we do not have the ability to separate out blanket purchase orders from non-blanket purchase orders for goods and services for current delivery, these amounts are excluded from the table below. The commitments under the MCDA are those to fund certain research and development to improve critical care products and develop new products for sale to Hopsira and to provide sales specialists focused on critical care. We believe that our existing cash and liquid investments along with funds expected to be generated from future operations will provide us with sufficient funds to meet commitments under all of our contractual obligations. There are no obligations past 2009. (In thousands)

	2007	2008	2009
MCDA	$ 4,947	$ 5,500	$ 5,500
Property and equipment	12,211		
Total	$ 17,158	$ 5,500	$ 5,500

Forward Looking Statements

Various portions of this Report, including this Management s Discussion and Analysis, describe trends in our business and finances that we perceive and state some of our expectations and beliefs about our future. These statements about the future are forward looking statements, and we identify them by using words such as believe, expect, estimate, plan, will, continue, could, may, and by similar expressions and about aims, goals and plans. The forward looking statements are based on the best information currently available to us and assumptions that we believe are reasonable, but we do not intend the statements to be representations as to future results. They include, among other things, statements about:

- future operating results and various elements of operating results, including future expenditures on sales and marketing and product development, future sales and unit volumes of products, future license, royalty and revenue share income, production costs, gross margins, litigation expense, SG&A, R&D expense, future costs of expanding our custom I.V. systems business, income, losses, cash flow, changes in working capital items such as receivables and inventory, selling prices, and income taxes;

- factors affecting operating results, such as shipments to specific customers, reduced dependence on current proprietary products, expansion in international markets, selling prices, future increases or decreases in sales of certain products and in certain markets and distribution channels, increases in systems capabilities, introduction and sales of new products, warranty claims, rebates, product returns, bad debt expense, inventory requirements, manufacturing efficiencies and cost savings, unit manufacturing costs; establishment of production facilities outside the U.S., adequacy of production capacity, results of R&D, asset impairment losses, relocation of manufacturing facilities and personnel, effect of expansion of manufacturing facilities on production efficiencies and resolution of production inefficiencies, business seasonality and fluctuations in quarterly results, customer ordering patterns and the effects of new accounting pronouncements;

- new or extended contracts with manufacturers and buying organizations, dependence on a small number of customers, effect of the acquisition of Hospira s Salt Lake City manufacturing facility and the manufacture of products for Hospira under the MCDA, cost savings and use of our systems and procedures under the MCDA, and the outcome of our strategic initiatives;

- regulatory approvals and compliance; outcome of litigation; competitive and market factors, including continuing development of competing products by other manufacturers, consolidation of the healthcare provider market and downward pressure on selling prices; future purchases of treasury stock; working capital requirements; foreign currency denominated financial instruments; capital expenditures; acquisitions of other businesses or product lines; indemnification liabilities; contractual liabilities.

The kinds of statements described above and similar forward looking statements about our future performance are subject to a number of risks and uncertainties which one should consider in evaluating the statements. First, one should consider the factors and risks described in the statements themselves. Those factors are uncertain, and if one or more of them turn out differently than we currently expect, our operating results may differ materially from our current expectations.

Second, one should read the forward looking statements in conjunction with the Risk Factors in Part II, Item 1A of the Annual Report to the Securities and Exchange Commission for the year ended December 31, 2006 and Part II, Item 1A of this Quarterly Report. Also, our actual future operating results are subject to other important factors that we cannot predict or control, including among others the following:

- general economic and business conditions;

- the effect of price and safety considerations on the healthcare industry;

- competitive factors, such as product innovation, new technologies, marketing and distribution strength and price erosion;

- unanticipated market shifts and trends;

- the impact of legislation affecting government reimbursement of healthcare costs;

- changes by our major customers and independent distributors in their strategies that might affect their efforts to market our products;

- unanticipated production problems; and

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

We disclaim any obligation to update the statements or to announce publicly the result of any revision to any of the statements contained herein to reflect future events or developments.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We have a portfolio of corporate preferred stocks and federal-tax-exempt state and municipal government debt securities. The securities are all investment grade and we believe that we have virtually no exposure to credit risk. Dividend and interest rates reset at auction for most of the securities at seven to forty-nine day intervals, with some longer but none beyond twelve months, so we have very little market risk, that is, risk that the fair value of the security will change because of changes in market interest rates; they are readily saleable at par at auction dates, and can normally be sold at par between auction dates. As of March 31, 2007, we had no declines in the market values of these securities.

Our future earnings are subject to potential increase or decrease because of changes in short-term interest rates. Generally, each one-percentage point change in the discount rate will cause our overall yield to change by two-thirds to three-quarters of a percentage point, depending upon the relative mix of federal-tax-exempt securities and corporate preferred stocks in the portfolio and market conditions specific to the securities in which we invest.

Foreign currency exchange risk for financial instruments on our balance sheet, which consist of cash, accounts receivable and accounts payable, is not significant to our financial statements. Sales from the U.S. and Mexico to foreign distributors are all denominated in U.S. dollars. We have manufacturing, sales and distribution facilities in several countries and we conduct business transactions denominated in various foreign currencies, principally the Euro, British Pound, and Mexican Peso. Cash and receivables in those countries have been insignificant and are generally offset by accounts payable and accruals in the same foreign currency, except for Italy, where our net Euro position at March 31, 2007 was approximately 3.9 million. We expect that in the future, with the growth of our European distribution operation, that net Euro denominated instruments will continue to increase. We currently do not hedge our foreign currency exposures.

Our exposure to commodity price changes relates primarily to certain manufacturing operations that use resin. We manage our exposure to changes in those prices through our procurement and supply chain management practices and the effect of price changes has not been material. We are not dependent upon any single source for any of our principal raw materials and all such materials and products are readily available.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Our principal executive officer and principal financial officer have concluded, based on their evaluation of our disclosure controls and procedures (as defined in Regulations 13a-14(c) and 15a-14(c) under the Securities Exchange Act of 1934) as of the end of the period covered by this Report, that our disclosure controls and procedures are effective to ensure that the information we are required to disclose in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure and that such information is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities Exchange Commission. There were no significant changes in our internal controls or in other factors that could significantly affect our internal controls subsequent to the date of the principal executive officer s and principal financial officer s evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART II
OTHER INFORMATION

Item 1. Legal Proceedings

We have not been required to pay any penalty to the IRS for failing to make disclosures required with respect to certain transactions that have been identified by the IRS as abusive or that have a significant tax avoidance purpose.

In an action filed June 16, 2004 entitled ICU Medical, Inc. v. Alaris Medical Systems, Inc. in the United States District Court for the Central District of California, we alleged that Alaris infringes ICU s patent in the manufacture and sale of the SmartSite and SmartSite Plus Needle-Free Valves and Systems. On August 2, 2004 the Court denied our request for a preliminary injunction. On December 27, 2004, our complaint was amended to allege that Alaris infringes three additional patents. On July 17, 2006, the Court issued an order interpreting certain claims in certain of our patents in a manner that, if upheld, could significantly impair our ability to enforce those patents against others, including Alaris. The Court also issued a partial summary judgment in favor of Alaris based on one of those interpretations. On January 22, 2007, the Court issued an order granting Alaris summary judgment motion of invalidity as to the remaining claims asserted against Alaris and on February 22, 2007, the Court entered judgment dismissing those remaining claims. We intend to appeal the Court s judgment. The Court s order has not affected all patent claims under the patents in the suit. Following entry of the judgment dismissing the claims, the Court heard Alaris motion to recover its fees, costs and expenses and on April 16, 2007, the Court granted in part Alaris motion. The amount of the award has not been determined and additional briefing from the parties is scheduled on this issue. We intend to appeal the award when it is made and do not believe at this time that it is probable that an award of any material amount will ultimately be sustained. The outcome of this matter cannot be determined at this time.

In an action filed July 6, 2006 entitled Medegen MMS, Inc. v. ICU Medical, Inc. pending in the United States District Court for the Central District of California, Medegen alleges that ICU Medical infringes one of its patents by the offering for sale and selling the CLC 2000 and Tego, and Medegen seeks monetary damages and injunctive relief. In March 2007, Medegen withdrew its action as to the Tego. We believe we are not infringing and that there is not any significant financial exposure, other than the cost of litigation. We intend to vigorously defend ourselves in this action.

In an action filed September 10, 2004 entitled ICU Medical, Inc. v. Fulwider Patton Lee & Utecht, LLP (Fulwider), in the Superior Court of California for the County of Orange, we alleged that during the course of its representation of us and continuing thereafter, Fulwider engaged in various matters for our direct competitors, including Alaris and others, and committed other acts of negligence and breaches of the attorney-client relationship. On December 2, 2005, with leave of the Court, we filed an amended complaint naming Cardinal Health 303, Inc. (formerly Alaris Medical Systems, Inc.) as an additional defendant. On March 27, 2006, the Court sustained Alaris demurrers to an amended complaint without leave to amend, effectively removing Alaris as a defendant. As of January 2, 2007, the Company and Fulwider agreed to settle the action against Fulwider for a payment to the Company of $8 million. We received the payment in January 2007. We are seeking appellate review of the Court s ruling sustaining Alaris demurrers. The outcome of the proceeding cannot be determined at this time.

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

Item 1A. Risk Factors.

In evaluating an investment in our common stock, investors should consider carefully, among other things, the risk factors previously disclosed in Part II, Item 1A of our Annual Report to the Securities and Exchange Commission for the year ended December 31, 2006, as well as the information contained in this Quarterly Report and our other reports and registration statements filed with the Securities and Exchange Commission. There have been no material changes in the Risk Factors as previously disclosed Risk Factors in Part II, Item 1A of our Annual Report to the Securities and Exchange Commission for the year ended December 31, 2006.

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

Issuer Repurchase of Equity Securities

The following is a summary of our stock repurchasing activity during the first quarter of 2007:

Period	Shared purchased	Average price paid per share	Shares purchased as part of a publicly announced program	Approximate dollar value that may yet be purchased under the program
01/1/2007 01/31/2007	24,244	$ 41.24	24,244	$
02/1/2007 02/28/2007				20,000,000
03/31/2007 03/31/2007	192,877	39.47	192,877	12,386,700
First quarter 2007 total	217,121	$ 39.67	217,121	

We had a stock repurchase program, originally announced in July 2006. In August 2006, our Board of Directors authorized a program to purchase $14.0 million of our common stock. This program was terminated in January 2007 after purchasing shares with a cost of approximately $8.0 million. Also in January 2007, we announced an expanded program to purchase up to at least $20 million of our common stock. However, we may purchase more or less than that amount, as we deem appropriate based on the stock price, prevailing market and business conditions and other considerations.

Item 3. Default Upon Senior Securities

Inapplicable

Item 4. Submission of Matters to a Vote of Security Holders

Inapplicable

Item 5. Other Information

None

Item 6. Exhibits

Exhibit	
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 31.2:	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 32:	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Signatures

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/ Francis J. O Brien
Francis J. O Brien
Chief Financial Officer
(Principal Financial Officer)

Date: April 26, 2007

/s/ Scott E. Lamb
Scott E. Lamb
Controller
(Principal Accounting Officer)

Date: April 26, 2007

25