ICU MEDICAL INC/DE
Form 10-K
February 20, 2009
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-K

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

**For the fiscal year ended December 31, 2008 or**

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

**For the transition period from to**

**Commission File No. 0-19974**

# 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**<br>**San Clemente, California** | **92673** |
| (Address of principal executive offices) | (Zip Code) |

**Registrant s Telephone Number, Including Area Code:** (949) 366-2183

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

| **Title of each class** | **Name of each exchange on which registered** |
|---|---|
| Common stock, par value $0.10 per share | The NASDAQ Stock Market LLC<br>(Global Select Market) |

Securities Registered Pursuant to Section 12(g) of the Act:
Preferred Stock Purchase Rights

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. o Yes x No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. o Yes x No

Indicate by check mark 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 registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes o No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

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

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

The aggregate market value of the voting stock held by non-affiliates of registrant as of June 30, 2008, the last business day of registrant s most recently completed second fiscal quarter, was $279,719,052*.

The number of shares outstanding of registrant s common stock, $.10 par value, as of January 31, 2009 was 14,730,725.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for registrant s 2009 Annual Meeting of Stockholders filed or to be filed pursuant to Regulation 14A within 120 days following registrant s fiscal year ended December 31, 2008, are incorporated by reference into Part III of this Report.

* Without acknowledging that any person other than Dr. George A. Lopez is an affiliate, all directors and executive officers have been included as affiliates solely for purposes of this computation.

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**ICU Medical, Inc.**

**Form 10-K**

**For the Year Ended December 31, 2008**

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**PART I**

**Item 1. Business.**

We are a leader in the development, manufacture and sale of proprietary, disposable medical connection systems for use in vascular therapy applications. Our devices are designed to protect patients from catheter related bloodstream infections and healthcare workers from exposure to diseases through accidental needlesticks or hazardous drugs. We are also a leader in the production of custom I.V. systems and we incorporate our proprietary products into many of those custom I.V. systems. In addition, we are a significant manufacturer of critical care medical devices, including catheters, angiography kits and cardiac monitoring systems. Our headquarters are in San Clemente, California.

In 1993, we launched the CLAVE, an innovative one-piece, needleless I.V. connection device that accounted for approximately 39% of our revenue in 2008, exclusive of CLAVEs incorporated into custom I.V. systems. We believe that the CLAVE offers superior infection control benefits for the patient and for healthcare providers a combination of safety, ease of use, reliability and cost effectiveness that is superior to any other protective I.V. connection system on the market. It allows protected, secure and sterile I.V. connections without needles and without failure-prone mechanical valves used in the I.V. connection systems of some competitors. The CLAVE is a successor to our protected needle products first introduced in 1984. We designed the CLAVE to eliminate needles from certain applications in acute care hospitals, home healthcare, ambulatory surgical centers, nursing homes, convalescent facilities, physicians offices, medical clinics, and emergency centers. Reduction in the use of needles not only decreases needlesticks but also reduces the number of needles to be disposed of and certain safety risks inherent in needle handling and disposal.

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 have furthered this effort to include all of our proprietary devices on all of our custom systems beyond the CLAVE.

We are reducing our dependence on our current proprietary products by introducing new products and systems. We are expanding our custom products business through increased sales to medical product manufacturers and independent distributors. We also contract with group purchasing organizations and independent dealer networks for inclusion of our CLAVE, custom I.V. systems and custom oncology products in the product offerings of those entities. In our Co-Promotion and Distribution Agreement with Hospira, we manufacture all new custom I.V. systems for sale by Hospira Inc. ( Hospira ) and jointly promote the products under the name SetSource®. In 2005, we acquired Hospira s Salt Lake City manufacturing facility and entered into the Manufacturing, Commercialization and Development Agreement ( MCDA ) with Hospira to produce Hospira s invasive monitoring, angiography products and certain other products they had manufactured at that facility. Custom products, which include custom I.V. sets, custom oncology and custom critical care products, accounted for approximately $70.2 million or 34% of total revenue in 2008. Sales of critical care products, excluding custom critical care, were $36.5 million in 2008. 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.

The principal products that we have introduced in recent years are the Spiros Closed Male Connector, Genie Closed Vial Access Device and a line of custom I.V. therapy sets specifically designed for use in Oncology. A DyePod Contrast Management System, TEGO Hemodialysis Connector, a new Y-CLAVE connector with integral check valve and the Orbit 90 diabetes infusion set. We intend to further expand our

custom sets market with various specialty components.

We currently sell substantially all of our products to I.V. product manufacturers, independent distributors and direct sales to the end user. Hospira, our largest customer, accounted for 69% of our worldwide revenues in 2008.

First person pronouns used in this Report, such as we, us, and our, refer to ICU Medical, Inc. and its subsidiaries unless context requires otherwise.

Our website address is http://www.icumed.com. We make available our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and amendments to those reports free of charge on our website as soon as reasonably practicable after filing them with the Securities and Exchange Commission. We also have our code of ethics posted on our website. The information on our website is not incorporated into this Annual Report.

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**I.V. Products**

I.V. therapy lines, used in hospitals, and ambulatory clinics, consist of a tube running from a bottle or plastic bag containing an I.V. solution to a catheter inserted in a patient s vein. The tube typically has several injection ports or Y-sites (conventionally, entry tubes covered by rubber caps) to which a secondary I.V. line can be connected to permit constant intravenous administration of medications, fluids and nutrients, and to allow instantaneous intravenous administration of emergency medication.

Prior to the introduction of needlesafe connectors, conventional practice was to make, primary I.V. system connections by inserting an exposed steel hollow-bore needle attached to the primary I.V. line into an injection port connected to the catheter. Conventional secondary I.V. connections, so called piggyback connections, were made by inserting an exposed steel hollow-bore needle attached to a secondary I.V. line into an injection port or other I.V. connector. In those I.V. connections, the needles, which typically were secured only with tape, could detach from the catheter or injection port resulting in disconnection and a serious and sometimes fatal interruption of the flow of the I.V. solution to the patient. The exposed needles could easily be contaminated by contact with unsterile objects or through contact with fluid in the I.V. lines. Accidental needlesticks from contaminated needles can result in infection to healthcare workers and, less frequently, patients.

Hepatitis B and C and HIV are transmitted through blood and other body fluids, and workers who come in contact with such infectious materials are at risk of contracting these diseases. Transmission may occur from needlesticks by contaminated needles or exposure of mucous membranes to infectious body fluids containing blood traces. Following each needlestick, the healthcare employer is required to perform a series of tests on the healthcare worker for both Hepatitis B and C and HIV, as well as track and record each needlestick incident. Thus, needlesticks result in time lost from work and substantial expense regardless of whether transmission of an infectious disease is detected. By eliminating needles from primary and secondary I.V. connections, our protective I.V. connectors prevent accidental needlesticks in those applications.

Heightened awareness of the risk of infection from needlesticks and the substantial expense to healthcare providers of complying with regulatory protocols when needlesticks occur have led to growing demand for safe medical devices such as our needleless I.V. connectors. This awareness has also lead to significant federal and state legislation. The federal Needlestick Safety and Prevention Act, enacted in 2000, modified standards promulgated by the Occupational Safety and Health Administration ( OSHA ) to require employers to use needle-safe systems where appropriate to reduce risk of injury to employees from needlesticks. This was a significant expansion of the previous OSHA mandate that universal precautions be observed to minimize exposure to blood and other body fluids. In 1998, the State of California enacted the bloodborne pathogen standard under the state s occupational safety and health statute. This standard mandates use of needlestick prevention controls, including needleless systems. California was the first state to enact such legislation, and since then many other states have enacted similar legislation. Our devices will allow a healthcare provider to be compliant with any of these standards.

Hospital Acquired Infection ( HAI ) is a substantial concern for healthcare providers today. HAI can be caused by a variety of issues, one being a vascular catheter becoming contaminated with bacteria. This result is what is known as a Catheter Related Bloodstream Infection ( CRBSI ) and has a high rate of patient morbidity and mortality. The Centers for Medicare Services ( CMS ) discontinued payment for HAI that are a result of Vascular Catheter Associated Infections in late 2008. The reported cost for treatment of a single CRBSI can be as high as $60,000 and CMS will discontinue payment for these expenses commencing in fiscal year 2009. The CLAVE technology is designed to prevent bacterial contamination of the vascular catheter and will assist healthcare facilities in the effort to reduce these types of infections. We believe that the CLAVE has certain design features that are important for the prevention of CRBSI. Additionally, we believe that these important design features are not available in competitive products.

*CLAVE Products*

Prior to the introduction of needle-safe connectors, a conventional I.V. line terminated with a male luer connector to which a hollow-bore needle would be attached to penetrate a latex or non-latex rubber covered injection port to make a primary or secondary I.V. connection. With the CLAVE system, instead of attaching a hollow-bore needle to the male luer, a CLAVE is used in place of the injection port and the male luer, without a needle, is simply threaded into the CLAVE with a half turn. The CLAVE consists of a cylindrical housing, which contains a silicone compression seal and an internal blunt cannula. As the luer tip enters the CLAVE housing, it depresses the silicone seal back into the housing and slides over the blunt cannula, which penetrates through the pre-slit silicone. Fluid channels in the blunt cannula create a continuous fluid pathway from the I.V. line, through the CLAVE into the primary I.V. line and into the catheter. The luer tip creates a tight seal against the top of the silicone thereby preventing contaminants from entering the fluid pathway or fluid from escaping the connection. When the I.V. line is disconnected from the CLAVE, the silicone compression seal expands to again fill the housing and reseal the opening. When the CLAVE is not in use, the silicone compression seal fills the opening in the housing and covers the internal blunt cannula, thus completely sealing the connector and presenting a flush surface that can be cleansed with an alcohol swab. The CLAVE contains no natural rubber latex.

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Emergency medications and I.V. fluids can be administered through the CLAVE by using a standard syringe without a hypodermic needle attached or various pre-filled syringe devices. The CLAVE can be used with any conventional peripheral or central vascular access systems, both for venous and arterial applications. The resilience of the silicone compression seal permits repeated connections and disconnections without replacing the CLAVE.

The Y-CLAVE is designed to be integrated directly into primary and secondary I.V. sets, thus eliminating the need for special adapters, pre-slit injection ports, or metal needles when making piggyback I.V. connections. The Y-CLAVE will not replace CLAVE products used in non-piggyback connections. Unlike the original CLAVE site, the Y-CLAVE is marketed exclusively to I.V. set manufacturers, such as Hospira, to build directly into their I.V. sets or used by us in our custom I.V. sets.

The MicroCLAVE® is smaller than the standard CLAVE but is functionally similar. The MicroCLAVE has a feature where upon disconnection of an I.V. administration set or syringe, there is a neutral displacement of fluid. This allows clinicians to utilize known protocols without the risk of device failure and a saline flush regimen which reduces cost and exposure to the drug Heparin. The MicroCLAVE is intended for use on all peripheral and central catheters, which allows it to be used throughout the Hospital and reduces line items that the Hospital may need to carry and the educational burden of having multiple devices. The MicroCLAVE is being marketed as an extension of the CLAVE product line for use where the infection control, neutral displacement and saline flush features are advantageous.

CLAVE products are our largest selling product line, and accounted for $80.6 million of our revenue in 2008.

***Custom I.V. Systems***

In the late 1990 s, we entered the market for custom I.V. systems. To promote the growth of the business, we have developed innovative software systems and manufacturing processes known as SetMaker that permits us to design a custom I.V. set to a hospital s or clinician s exact specifications, commence production in Mexico or Italy within less than a day after we receive the customer order and ship smaller orders of the custom I.V. sets to the customer within three days of receipt. While we are capable of meeting customer demand on this accelerated three-day schedule, in normal circumstances we ship within twenty-one to thirty days of receipt of the customers order. This is a fraction of the time required by other custom set manufacturers. The use of sophisticated design, validation, ordering and order tracking systems and streamlined assembly and distribution processes allows us to sell custom I.V. sets at prices substantially lower than those charged by other producers of custom I.V. sets.

Under a 2001 agreement with Hospira, we manufacture all new custom I.V. sets for sale by Hospira, and the two companies jointly promote the products under the name SetSource. The current term of the agreement extends to 2014. Sales of custom I.V. systems continue to increase as a result of the agreement and we expect further significant increases in sales of custom I.V. systems, although there is no assurance that such increases will be achieved.

We have committed significant resources to the strategic initiative to expand our custom I.V. system businesses and expect to incur additional expenses for continuing software development and enhancements in the manufacturing process. To date, most of the I.V. set sales volume is in

custom I.V. systems, and we expect this to continue.

During 2008, net sales of custom I.V. systems were approximately $49.3 million, 43% of the custom I.V. sales were with domestic distributors, 41% with Hospira and 16% from international sales.

*CLC2000®*

The CLC2000 is a one piece, swabbable connector used to connect I.V. lines to catheters, which is engineered to have a positive displacement of fluid on disconnection which in turn will prevent the back-flow of blood into the catheter. The CLC2000 does not permit the use of needles, thereby ensuring compliance with needle-free policies of healthcare providers. The CLC2000 also contains no natural rubber latex. The CLC2000 was developed to reduce clotting of catheters because of back-flow when the I.V. line is disconnected. The CLC2000 consists of a T shaped cylindrical housing, which contains a poppet that is depressed as the luer tip enters the CLC2000. Fluid flows around the poppet and through the housing and into the catheter. When the luer is removed from the CLC2000, a portion of the fluid remaining in the housing is expelled out through the tip of the catheter while a constant positive pressure is maintained to prevent any back-flow into the catheter.

The CLC2000 is typically used on central venous catheters where catheter occlusion is most prevalent. Generally, when an I.V. line is disconnected from the catheter, there is a back-flow of blood from the patient s vein into the catheter. That blood in time coagulates and occludes the catheter. Occlusion ( clotting off ) of catheters requires expensive drugs and procedures to flush the catheter, or if those procedures are not effective, replacement of the catheter. We concentrate the marketing of the CLC2000 where its no back-flow features are of maximum benefit in patient care. These are generally therapies that use long-term indwelling central venous catheters such as oncology and long-term infusion of medication. CLC2000 accounted for $6.0 million of our revenue in 2008.

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**Critical Care Products**

Critical care products are used to monitor vital signs as well as specific physiological functions of key organ systems. On May 1, 2005, we acquired Hospira s Salt Lake City manufacturing facility and entered into a twenty-year MCDA with Hospira, under which we produce for sale, exclusively to Hospira, substantially all the products 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 critical care products we manufacture are invasive hemodynamic monitoring systems that are used to monitor cardiac function and blood flow in critically ill patients. They include all components of the invasive monitoring system, except capital equipment such as computers and monitors, which continue to be manufactured elsewhere by Hospira. The products we manufacture at our Salt Lake City facility, almost all of which are disposable, are the following:

*Pressure monitoring devices* Disposable pressure-sensing devices provide accurate and continuous blood pressure readings and show the immediate effect of fluid management and drug administration. These products are used most commonly on patients with suspected pulmonary disease or cardiovascular dysfunction.

*Blood sampling systems* Blood sampling systems provide the clinician with a convenient, needleless method to obtain a patient s blood sample and to administer I.V. fluids or drugs in conjunction with blood pressure monitoring devices. They are designed to protect the clinician from exposure to bloodborne pathogens and reduce the risk of I.V. line contamination.

*Angiography kits* A broad range of devices for use in the cardiac catheterization laboratory enable physicians to monitor the function of the heart and examine the coronary arteries. They are various types of Left Heart and Right Heart procedural kits which include manifolds, syringes, stopcocks, specialized injection tubing and dye management systems, many of which contain pressure-sensing devices, and waste management systems.

*Advanced sensory catheters* Catheters used to measure cardiac output and blood oxygen levels. Depending on specific design, these catheters contain up to five lumens and use fiber-optics to continuously measure mixed venous oxygen saturation, blood pressure and cardiac output. They may also permit administration of fluids and drugs, monitoring patient temperature and pressures and blood sampling.

*Pulmonary artery thermodilution catheters* Catheters used for cardiac output determinations, fluid and drug administration, temperature and pressures and blood sampling. Depending on specific design, these catheters contain up to five lumens.

*Multi lumen central venous catheters* Catheters used for monitoring central venous pressure, blood sampling, and simultaneous administration of multiple I.V. solutions or drugs at individual flow rates.

We manufacture all critical care products sold by Hospira in the United States and all catheters sold by Hospira outside the United States. Our 2008 critical care sales, excluding custom critical care, were $36.5 million.

*Custom Critical Care* A substantial portion of the invasive monitoring and angiography products are custom products designed to meet the specific needs of the customer. Most of the critical care products can be sold in custom systems containing specific components to meet the specific needs of the customer, and in some cases, custom made or acquired components. Our 2008 custom critical care sales were $11.8 million.

**Other Products and Revenues**

We have a significant number of patents on the technology in our products and methods used to manufacture them. We have continuing royalty, license fee and revenue share income from our technology and from time to time may receive license fees or royalties from other entities for the use of our technology.

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***New Products***

We have recently introduced a number of new products: the TEGO for use in dialysis, a line of oncology products that includes the Spiros male luer connector device, the Genie vial access device, the Orbit 90 diabetes set and custom I.V. sets and ancillary products specifically designed for oncology therapy. Sales of these new products were $14.0 million in 2008.

We are developing several new products that we intend to introduce in 2009 and later. We believe innovative products continue to be important to maintaining and increasing our sales levels.

**Marketing and Distribution**

The influence of managed care and the growing trend toward consolidation among healthcare providers are the driving forces behind our sales and marketing strategies. Many healthcare providers are consolidating to create economies of scale and to increase negotiating power with suppliers. In an effort to further control costs, many of these consolidated groups are entering into long-term contracts with medical suppliers at fixed pricing. In this changing market place, we believe it is becoming increasingly important to secure contracts with major buying organizations in addition to targeting specific healthcare providers.

As of December 31, 2008, we employed 110 people in sales and marketing and expect this to increase in 2009. Our sales function includes product specialists worldwide who support our medical product manufacturing customers, our independent domestic distributors and end users of our products. Our product specialists call on prospective customers, demonstrate products and support programs to train the salespeople and customers staffs in the use of our products.

*Medical Product Manufacturers*

We have a strategic supply and distribution relationship with Hospira, a major I.V. product supplier, which has a significant share of the U.S. I.V. set market under contract. The agreement runs to 2014 and confers to Hospira conditional exclusive and nonexclusive rights to distribute certain of our CLAVE and other products to certain categories of customers both in the United States and foreign countries.

Hospira purchases CLAVE products packaged separately for distribution to healthcare providers and in bulk for assembly into Hospira s full range of I.V. products. The MicroCLAVE, CLC2000, Lopez Valve, Spiros, Genie and Rhino products are purchased and packaged separately.

Under another agreement with Hospira that extends to 2014, we have the exclusive right to manufacture all new custom gravity I.V. sets for sale by Hospira, other than those custom sets that Hospira was manufacturing before we entered into the agreement in 2001. Hospira and we jointly promote the products under the name SetSource. Hospira is the exclusive and non-exclusive distributor and co-promoter of SetSource products to certain categories of customers, including SetSource products containing both companies proprietary products.

Under the MCDA, we manufacture critical care products exclusively to Hospira. The majority of the products under the MCDA are critical care products. Hospira retains commercial responsibility for the products we produce, including sales, marketing, distribution, pricing, customer contracts, customer service and billing. We manufacture all critical care products sold by Hospira in the United States and all catheters sold by Hospira worldwide.

Worldwide sales to Hospira accounted for approximately 69% of revenue in 2008. The loss of Hospira as a customer would have a significant adverse effect on our business and operating results.

***Independent Domestic Distributors***

As of December 31, 2008, we had 41 independent distributors in the United States and Canada who employ approximately 690 salespeople in the aggregate and which accounted for approximately 17% of our revenues in 2008. We include Canada as domestic for administrative purposes. Distributors purchase and stock our products for resale to healthcare providers.

No single independent distributor accounted for more than two percent of revenue in 2008. Although the loss of one or more of our larger distributors could have an adverse affect on our business, we believe we could readily locate other distributors in the same territories who could continue to distribute our products to the same customers.

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***International***

International distribution is concentrated principally in Europe, Asia Pacific, Southeast Asia, Latin America, South Africa and the Middle East. Foreign sales (excluding Canada) accounted for approximately 15%, 13% and10% of our revenues 2008, 2007 and 2006. As of December 31, 2008, we had approximately 42 international distributors. Customers in Europe are served by our distribution operation in Italy. We serve the rest of the world from our facilities in the U.S. and Mexico. We have five business development personnel serving Europe and seven serving Asia Pacific, Southeast Asia, the Middle East, Africa and Latin America. We expect to add more business development personnel in 2009. Administrative operations are in Roncanova in northern Italy (at the site of our assembly plant) and San Clemente, California. Currently, all shipments from the United States are invoiced in U.S. dollars and sales from Italy are invoiced in Euros.

In December 2008, we signed an agreement to acquire a small manufacturing and distribution company based in Germany for 4.2 million. The products and distribution from this company are in the oncology market. Completion of this acquisition is contingent on final approval from the German court. We expect this process to conclude in the first half of 2009, however, there is no assurance that these expectations will be realized.

Under the MCDA, we manufacture all catheters sold outside the United States by Hospira. We currently deliver those products to Hospira in the United States, for export by Hospira, or ship directly to a Hospira facility outside the United States. Hospira retains commercial responsibility for those products.

**Manufacturing**

Manufacturing of our products involves injection molding of plastic and silicone parts, manual and automated assembly of the molded plastic parts, needles and other components, quality control inspection, packaging and sterilization. We mold all of our proprietary components, and perform all assembly, quality control, inspection, packaging, labeling and shipping of our products. Our manufacturing operations function as a separate group, producing products for the marketing and sales groups.

We own a fully integrated medical device manufacturing facility in Salt Lake City, Utah facility with approximately 450,000 square feet of state-of-the art manufacturing space. This building includes approximately 82,500 square feet of class 100,000 clean room area, approximately 36,000 square feet of other manufacturing space, approximately 104,000 square feet of warehouse space and approximately 155,000 square feet of office space. As of December 31, 2008, this facility was equipped with 64 injection molding machines and ancillary equipment and approximately 40 automated or semi-automated assembly machines. These sophisticated, highly automated assembly systems are designed to minimize human intervention and assemble the CLAVE, Y-CLAVE, MicroCLAVE, CLAVE vial access spike, CLC2000, RF150 and some of our critical care products. The assembly systems are custom designed and manufactured for us. Our mold maintenance shop supports the repair and maintenance needs of our molding. In addition, the mold maintenance shop serves as a research and development prototype shop, and utilizes advanced computer assisted design systems and automated machining equipment.

Most of our manual assembly is done at our facility in Ensenada, Mexico. This facility has approximately 241,000 square feet of production and warehousing space and an electron beam sterilizer. Principal products assembled manually are I.V. therapy systems and custom angiography systems and kits, the Lopez Valve, and CLAVE ancillary products and accessories and critical care products.

In 2007, we initiated a significant initiative to improve production processes, called the ICU Production System or IPS , which we believe will enable us to further improve our manufacturing efficiency. We started IPS in our Mexico facility in 2007 and in our Salt Lake City facility in 2008. These efforts are ongoing in both facilities and will continue in 2009.

Our state-of-the-art injection molding technology and highly automated assembly systems are designed to maintain a high level of product quality and achieve high volume production at low unit manufacturing costs. To achieve these advantages and to gain greater control over raw material and finished product delivery times, we mold our entire requirements of proprietary molded components. The raw materials for our molding operation are principally resins and silicones, and these materials are available from several sources. Generic, off-the-shelf items are purchased from outside vendors unless significant cost savings can be achieved by molding in-house. We have no contracts with our suppliers beyond the terms of purchase orders issued. 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 to date. We are not dependent upon any single source for any of our principal raw materials and we believe all such materials and products are readily available.

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The majority of the non-critical care products we manufacture are sterilized in processes which use electron beam ( e-beam ) radiation. Most critical care products and other certain products are currently sterilized in processes using gamma radiation or ethylene oxide gas ( EO ). The products we assemble in Italy are sterilized using gamma radiation. We have our own sterilization facility at our plant in Mexico that is used to sterilize most of the product assembled in Mexico. All other sterilization is done by independent contractors.

We have a 21,000 square foot building in northern Italy where we assemble I.V. therapy systems. This facility also serves as our European distribution center.

**Government Regulation**

Government regulation is a significant factor in the development, marketing and manufacturing of our products. The Food and Drug Administration ( FDA ) regulates medical product manufacturers and their products under a number of statutes including the Food, Drug and Cosmetic Act ( FDC Act ), and we and our products are subject to the regulations of the FDA. The FDC Act provides two basic review procedures for medical devices. Certain products may qualify for a submission authorized by Section 510(k) of the FDC Act, under which the manufacturer gives the FDA a pre-market notification of the manufacturer s intention to commence marketing the product. The manufacturer must, among other things, establish that the product to be marketed is substantially equivalent to another legally marketed product. Marketing may commence when the FDA issues a letter finding substantial equivalence. If a medical device does not qualify for the Section 510(k) procedure, the manufacturer must file a pre-market approval ( PMA ) application. This requires substantially more extensive pre-filing testing than the Section 510(k) procedure and involves a significantly longer FDA review process. FDA approval of a PMA application occurs only after the applicant has established safety and efficacy to the satisfaction of the FDA. Each of our current products has qualified, and we anticipate that any new products that we are likely to market will qualify, for the expedited Section 510(k) clearance procedure. However, certain of our new products may require a lengthier time for clearance than we have experienced in the past and there can be no assurance that a PMA application will not be required. Further, there is no assurance that other new products we develop or any manufacturers that we might acquire, or claims that we may make concerning those products, will qualify for expedited clearance rather than the more time consuming PMA procedure or that, in any case, they will receive clearance from the FDA. FDA regulatory processes are time consuming and expensive. Uncertainties as to time required to obtain FDA clearances or approvals could adversely affect the timing and expense of new product introductions. All of the regulated products that we currently manufacture are classified as Class II medical devices by the FDA. Class II medical devices are subject to performance standards relating to one or more aspects of the design, manufacturing, testing and performance or other characteristics of the product in addition to general controls involving compliance with labeling and record keeping requirements.

We must comply with FDA, ISO and European Council Directive 93/42/EEC ( Medical Device Directive ) regulations governing medical device manufacturing practices. The FDA, state, foreign agencies and ISO require manufacturers to register and subject manufacturers to periodic FDA, state, foreign agencies and ISO inspections of their manufacturing facilities. We are a FDA and ISO registered medical device manufacturer, and must demonstrate that we and our contract manufacturers comply with the FDA s current Quality System Regulations ( QSR ). Under these regulations, the manufacturing process must be regulated and controlled by the use of written procedures and the ability to produce devices that meet the manufacturer s specifications must be validated by extensive and detailed testing of every critical aspect of the process. They also require investigation of any deficiencies in the manufacturing process or in the products produced and detailed record keeping. Further, the FDA and ISO s interpretation and enforcement of these requirements has been increasingly strict in recent years and seems likely to be even more stringent in the future. Failure to adhere to QSR and ISO standards would cause the products produced to be considered in violation of the applicable law and subject to enforcement action. The FDA and ISO monitor compliance with these requirements by requiring manufacturers to register with the FDA and ISO, and by subjecting them to periodic FDA and ISO inspections of manufacturing facilities. If an FDA or ISO inspector observes conditions that might be violative, the manufacturer must correct those conditions or explain them satisfactorily, or face potential regulatory action that might include physical removal of the product from the marketplace.

We believe that our products and procedures are in compliance with all applicable FDA and ISO regulations. There is no assurance, however, that other products we are developing or products that we may develop in the future will be cleared by the FDA and classified as Class II products, or that additional regulations restricting the sale of our present or proposed products will not be promulgated by the FDA, ISO or agencies in other jurisdictions. In addition, changes in FDA, ISO or other federal or state health, environmental or safety regulations or their applications could adversely affect our business.

To market our products in the European Community ( EC ), we must conform to additional requirements of the EC and demonstrate conformance to established quality standards and applicable directives. As a manufacturer that designs, manufactures and markets its own devices, we must comply with the quality management standards of EN ISO 13485. Those quality standards are similar to the QSR regulations.

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Manufacturers of medical devices must also conform to EC Directives such as Council Directive 93/42/EEC and their applicable annexes. Those regulations assure that medical devices are both safe and effective and meet all applicable established standards prior to being marketed in the EC. Once a manufacturer and its devices are in conformance with the Medical Device Directive, the CE Mark may be affixed to its devices. The CE Mark gives devices unobstructed entry to all the member countries of the EC.

We have demonstrated conformity to the regulation of EN ISO 13485 and the Medical Device Directive and we affix the CE Mark to our device labeling for product sold in member countries of the EC.

We believe our products and systems are in compliance with all EC requirements. There can be no assurance, however, that other products we are developing or products that we may develop in the future will conform or that additional regulations restricting the sale of our present or proposed products will not be promulgated by the EC.

**Competition**

The market for I.V. products, oncology and critical care products is intensely competitive. We believe that our ability to compete depends upon our continued product innovation, the quality, convenience and reliability of our products, access to distribution channels, patent protection, and pricing. We encounter significant competition in this market both from large established medical device manufacturers and from smaller companies. Our ability to compete effectively depends on our ability to differentiate our products based on safety features, product quality, cost effectiveness, ease of use and convenience, as well as our ability to perceive and respond to changing customer needs. In the long term, we expect that our ability to compete will continue to be affected by our ability to reduce unit manufacturing costs through improved production processes and higher volume production.

Our present and future products compete with needleless I.V. connection systems like those marketed by Baxter Healthcare Corporation, B. Braun Medical, Inc. ( B. Braun ), Cardinal Healthcare Inc. ( Cardinal ), Becton Dickinson and others. Although we believe that our needleless devices have distinct advantages over competing systems, there is no assurance that they will be able to compete successfully with these products.

The market for critical care devices is highly competitive. Competition is based on pricing, customer service and product features. The overall market for the critical care products we manufacture has been declining in recent years, and over that period, Hospira has lost market share to its competitors.

Manufacturers of products with which we currently compete, or might compete in the future, include large companies with an established presence in the healthcare products market and substantially greater financial, marketing and distribution, managerial and other resources. In particular, Baxter, Cardinal, Hospira, Fresenius and B. Braun are leading distributors of I.V. therapy systems, Edwards Life Sciences has a significant share of the critical care catheter market, invasive monitoring disposables market and arterial blood sampling system market, while NAMIC, formerly part of Boston Scientific, and Merit Medical are competitive in the angiography kit market. Several of these competitors have broad product lines and have been successful in obtaining full-line contracts with a significant number of hospitals to supply substantially all of

their product requirements in these areas. In order to achieve greater market penetration or maintain our existing market position, we have established strategic relationships with customers such as Hospira.

We believe the success of the CLAVE has, and will continue to motivate others to develop one-piece needleless connectors, which may incorporate many of the same functional and physical characteristics as the CLAVE. We are aware of a number of such products. We believe some of those products were developed by companies who currently have the distribution or financial capabilities equivalent to or greater than those that we have, and by other companies that we believe do not have similar capabilities, although some of those products may be distributed in the future by larger companies that do have such capabilities. We believe these products have had a moderate impact on our CLAVE business to date, but there is no assurance that our current or future products will be able to successfully compete with these or future products developed by others.

Cardinal manufactures a connector that competes with the CLAVE. Cardinal is the largest distributor of healthcare products in the United States, and has announced its intent to increase market share. We believe Cardinal could adversely affect our market share and the prices for our CLAVE products.

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We believe that our ability to compete in the custom products market depends upon the same factors affecting our existing products, but will be particularly affected by cost to the customer and delivery times. While we believe we have advantages in these two areas, there is no assurance that other companies will not be able to compete successfully with our custom products.

**Patents**

We have United States and certain foreign patents on the CLAVE, CLC2000, Orbit 90, 1o2 Valve, TEGO, Click Lock technology, Custom Set Design and Manufacturing Methods. We have applications pending for additional United States and foreign patents on TEGO, Y-CLAVE with integral check value, Orbit 90, CLC2000, CLAVE, Spiros Closed Male Connector, Genie Closed Vial Access Device and Custom Set Design and Manufacturing Methods. The expiration dates of our patents range from 2009 to 2023. While we no longer manufacture and sell the Click Lock and Piggy Lock, the patents have considerable value for potential use in other devices.

Our success may depend in part on our ability to obtain patent protection for our products and to operate without infringing the proprietary rights of third parties. While we have obtained certain patents and applied for additional United States and foreign patents covering certain of our products, there is no assurance that any additional patents will be issued, that the scope of any patent protection will prevent competitors from introducing similar devices or that any of our patents will be held valid if subsequently challenged. We also believe that patents on the Click Lock products may have been, and that patent protection on the CLAVE may be, important in preventing others from introducing competing products that are as effective as our products. The loss of patent protection on CLAVE, CLC2000 or Click Lock products could adversely affect our ability to exclude other manufacturers from producing effective competitive products and could have an adverse impact on our financial results.

United States patents related to our principal products expire as follows:

| Product | Expiration dates |
|---|---|
| CLAVE® connector | 12/2011 - 07/2016 |
| CLC2000® connector | 12/2016 |
| Click Lock® connector | 04/2010 - 07/2015 |
| Custom Set Design and Manufacturing | 01/2021 |
| Orbit 90® infusion set | 03/2022 - 11/2023 |

Hospira owns many patents on critical care and other products manufactured under the MCDA and has granted us a license to use those patents to produce products under the MCDA. Any new patents will be owned by us, Hospira or jointly by us and Hospira under terms specified in the MCDA.

The fact that a patent is issued to us does not eliminate the possibility that patents owned by others may contain claims that are infringed by our products.

There has been substantial litigation regarding patent and other intellectual property rights in the medical device industry. Litigation, which would result in substantial cost to us and in diversion of our resources, may be necessary to defend us against claimed infringement of the rights of others and to determine the scope and validity of the proprietary rights of others. Adverse determinations in such litigation could subject us to significant liabilities to third parties or could require us to seek licenses from third parties and could prevent us from manufacturing, selling or using our products, any of which could have a material adverse effect on our business. In addition, we have initiated litigation, and will continue to initiate litigation in the future, to enforce our intellectual property rights against those we believe to be infringing on our patents. Such litigation could result in substantial cost and diversion of resources.

**Employees**

At December 31, 2008 we had 1,829 full-time employees, consisting of 184 engaged in sales, marketing and administration, and 1,645 in manufacturing, molding, product development and quality control, including 1,165 in Mexico. We contract with independent temporary agencies to provide some production personnel who are not our employees. At December 31, 2008, we had 82 temporary production personnel.

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**Item 1A. Risk Factors.**

In evaluating an investment in our common stock, investors should consider carefully, among other things, the following risk factors, as well as the other information contained in this Annual Report and our other reports and registration statements filed with the Securities and Exchange Commission.

*Because we are dependent on Hospira for a substantial portion of our sales, any change in our arrangements with Hospira causing a decline in our sales to it could result in a significant reduction in our sales and profits.*

We depend on Hospira for a high percentage of our sales. The table below shows our total revenue and percentage of total revenue attributable to various types of customers for 2008 and 2007 (dollars in millions):

| | Years Ended December 31, | | | |
|---|---|---|---|---|
| | 2008 | | 2007 | |
| Hospira (U.S.) | $ 132.6 | 65% | $ 129.7 | 69% |
| Other manufacturers | 3.7 | 2% | 2.7 | 1% |
| Domestic distributors/direct sales | 35.9 | 17% | 29.5 | 16% |
| International customers | 30.8 | 15% | 23.7 | 13% |
| Other revenue | 1.7 | 1% | 2.5 | 1% |

Our principal agreements with Hospira are the MCDA, a strategic supply and distribution agreement for most of our other medical devices in the domestic and international markets and an agreement to sell Hospira custom I.V. systems. The MCDA expires in 2025 and the latter two agreements expire in 2014.

The U.S. market for critical care products has been declining in recent years and our sales of critical care products to Hospira declined in 2008 compared to 2007. We expect further declines in 2009. If the market for critical care products continues to decline or if we have significant decreases in our prices to Hospira under the MCDA that are not offset by increased sales volume, our critical care product sales could continue to decline, resulting in a substantial reduction to our sales and profits.

Under the terms of our agreements with Hospira, including the MCDA, we are dependent on the marketing and sales efforts of Hospira for a large percentage of our sales, and Hospira determines the prices at which the products that we sell to Hospira will be sold to its customers. Hospira has conditional exclusive rights to sell CLAVE and our other products as well as custom I.V. systems under the SetSource program in many of its major accounts, and exclusive rights to sell products we produce under the MCDA. If Hospira is unable to maintain its position in the marketplace, our sales and operations could be adversely affected.

In 2004, Hospira substantially reduced its purchases of CLAVE products because it was reducing its inventories of our products. This caused a significant reduction in our sales and led to a net loss in the third and fourth quarters of 2004. If the steps we have taken to monitor and control the amount of Hospira s inventory of CLAVE products to avoid future inventory reductions are not successful we could experience sharp

fluctuations in sales of CLAVE products to Hospira in the future.

Our ability to maintain and increase our market penetration depends on the success of our arrangement with Hospira and Hospira s arrangements with major buying organizations and its ability to renew such arrangements, as to which there is no assurance. Our business could be materially adversely affected if Hospira terminates its arrangement with us, negotiates lower prices, sells more competing products, whether manufactured by themselves or others, or otherwise alters the nature of its relationship with us. Although we believe that Hospira views us as a source of innovative and profitable products, there is no assurance that our relationship with Hospira will continue in its current form.

In contrast to our dependence on Hospira, our principal competitors in the market for protective I.V. connection systems are much larger companies that dominate the market for I.V. products and have broad product lines and large internal distribution networks. In many cases, these competitors are able to establish exclusive relationships with large hospitals, hospital chains, major buying organizations and home healthcare providers to supply substantially all of their requirements for I.V. products. In addition, we believe that there is a trend among individual hospitals and alternate site healthcare providers to consolidate into or join large major buying organizations with a view to standardizing and obtaining price advantages on disposable medical products. These factors may limit our ability to gain market share through our independent dealer network, resulting in continued concentration of sales to and dependence on Hospira.

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*Our operating results may be adversely affected by unfavorable economic conditions which affect our customers ability to buy our products and could affect our relationships with our suppliers.*

Disruptions in financial markets worldwide and other worldwide macro-economic challenges may cause our customers and suppliers to experience cash flow concerns. If job losses and the resulting loss of health insurance and personal savings causes individuals to forgo or postpone treatment, decreased hospital use could affect the demand for our products. As a result, customers may modify, delay or cancel plans to purchase our products and suppliers may increase their prices, reduce their output or change terms of sales. Additionally, if customers or suppliers operating and financial performance deteriorates, or if they are unable to make scheduled payments or obtain credit, customers may not be able to pay, or may delay payment of, accounts receivable owed to us and suppliers may impose different payment terms. Any inability of current and/or potential customers to pay us for our products or any demands by suppliers for different payment terms may adversely affect our earnings and cash flow.

*If we are unable to substantially reduce the cost of manufacturing products that we sell to Hospira under the MCDA, our financial performance may be adversely affected.*

The prices at which we sell products to Hospira and the gross margins that we realize under the MCDA depend on the cost savings that we expect to achieve in producing those products over Hospira s cost to manufacture the same products at the date we purchased the Salt Lake City facility from Hospira. Achieving substantial cost reductions requires moving manufacturing operations to lower-cost locations and the development and implementation of innovative manufacturing and assembly processes and techniques. While we have succeeded in reducing costs to date, there is no assurance of the longer term success of these efforts, and recent declines in production volumes of critical care products because of reduced sales of those products to Hospira is offsetting some of the cost savings previously attained. If we are unable to achieve the cost savings that we expect, our profits on products manufactured under the MCDA will be adversely affected.

*Expansion of our manufacturing facilities may result in inefficiencies which could have an adverse effect on our operations and financial results.*

In the fourth quarter of 2006, we experienced significant production inefficiencies following a large increase in production volume in Mexico and the transfer of San Clemente production to Salt Lake City. In 2007, we expanded our Mexico facility and anticipate further increases in volume at that facility, resulting in an increase to the workforce. Turnover among new employees is unusually high in Mexico, and the additional time spent in classroom training and on the job training could create production inefficiencies in Mexico in the future. The addition of new products will require additional molding in Salt Lake City, manual assembly work in Mexico and eventually additional automated assembly work in Salt Lake City. The effect of any inefficiencies can be particularly expensive in Salt Lake City because of the high fixed costs in this highly automated facility. Expansions of our production capacity will require significant management attention to avoid inefficiencies of the type experienced in 2006.

*Because we are dependent on the CLAVE for a major portion of our sales, any decline in CLAVE sales could result in a significant reduction in our sales and profits.*

In 2008, CLAVE products accounted for approximately 39% of our revenue. We depend heavily on sales of CLAVE products, especially sales of CLAVE products to Hospira. Most of our CLAVE sales are in the United States, where we expect moderate sales growth in the future as further penetration of markets available to our existing customers in the United States becomes increasingly difficult. Future significant sales increases for CLAVE products may depend on increases in sales of custom I.V. systems, expansion in the international markets or acquisition of new customers in the United States. We cannot give any assurance that sales of CLAVE products will increase indefinitely or that we can sustain current profit margins on CLAVE products indefinitely.

We believe that the success of the CLAVE has motivated, and will continue to motivate, others to develop one piece needleless connectors. In addition to products that emulate the characteristics of the CLAVE, it is possible that others could develop new product concepts and technologies that are functionally equivalent or superior to the CLAVE. If other manufacturers successfully develop and market effective products that are competitive with CLAVE products, CLAVE sales could decline, we could lose market share, and we could encounter sustained price and profit margin erosion.

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*If our efforts to increase our custom products business are not successful or we cannot increase sales of other products and develop new, commercially successful products, our sales may not grow.*

Our future success may be dependent both on the success of our strategic initiatives to substantially increase our custom product business and develop significant market share on a profitable basis and on new product development. Our total sales of custom products including custom I.V. products, custom oncology products and custom critical care products, were $70.2 million in 2008, compared with $58.5 million in 2007. Sales of custom I.V. products increased by 9% in 2008 over 2007, 15% in 2007 over 2006 and 24% in 2006 over 2005. Sales of custom critical care products declined in 2008 from 2007. The success of our custom product sales program will require a larger increase in sales in the future than was achieved in 2008 and there is no assurance that such an increase will be achieved or sustained. Although we are seeking to continue to develop a variety of new products, there is no assurance that any new products will be commercially successful or that we will be able to recover the costs of developing, testing, producing and marketing such products. Certain healthcare product manufacturers, with financial and distribution resources substantially greater than ours, have developed and are marketing products intended to fulfill the same functions as our products which may adversely affect our results of operations.

*International sales pose additional risks related to competition with larger international companies and established local companies, our possibly higher cost structure, our ability to open foreign manufacturing facilities that can operate profitably, higher credit risks and exchange rate risk.*

We have undertaken a program to increase our international sales, and have distribution arrangements in all the principal countries in Western Europe, the Pacific Rim and Latin America, and in South Africa. We plan to sell in most other areas of the world. Currently, we export most of our products sold internationally from the United States and Mexico. Our principal competitors in international markets consist of much larger companies as well as smaller companies already established in the countries into which we sell our products. Our cost structure is often higher than that of our competitors because of the relatively high cost of transporting product to the local market as well as our competitors lower local labor costs in some markets. For these reasons, among others, we expect to open manufacturing facilities in foreign locations. There is no certainty that we will be able to open local manufacturing facilities or that those facilities will operate on a profitable basis.

Our international sales are subject to higher credit risks than sales in the United States. Many of our distributors are small and may not be well capitalized. Payment terms are relatively long. Our prices to our international distributors, outside of Europe, for product shipped to the customers from the United States or Mexico are denominated in U.S. dollars, but their resale prices are set in their local currency. A decline in the value of the local currency in relation to the U.S. dollar may adversely affect their ability to profitably sell in their market the products they buy from us, and may adversely affect their ability to make payment to us for the products they purchase. Legal recourse for non-payment of indebtedness may be uncertain. These factors all contribute to a potential for credit losses.

We distribute products in Europe through our subsidiary in northern Italy. Sales and most other transactions by this subsidiary are denominated in Euros. As the Euro-denominated sales increase in relation to our total sales, a decline in the value of the Euro in relation to the U.S. dollar could have an adverse effect on our reported operating results. There is no assurance as to the growth of this subsidiary or its future operating results.

*Continuing pressures to reduce healthcare costs may adversely affect our prices. If we cannot reduce manufacturing costs of existing and new products, our sales may not grow and our profitability may decline.*

Increasing awareness of healthcare costs, public interest in healthcare reform and continuing pressure from Medicare, Medicaid and other payers to reduce costs in the healthcare industry, as well as increasing competition from other protective products, could make it more difficult for us to sell our products at current prices. In the event that the market will not accept current prices for our products, our sales and profits could be adversely affected. We believe that our ability to increase our market share and operate profitably in the long term may depend in part on our ability to reduce manufacturing costs on a per unit basis through high volume production using highly automated molding and assembly systems. If we are unable to reduce unit manufacturing costs, we may be unable to increase our market share for CLAVE products or may lose market share to alternative products, including competitors products. Similarly, if we cannot reduce unit manufacturing costs of new products as production volumes increase, we may not be able to sell new products profitably or gain any meaningful market share. Any of these results would adversely affect our future results of operations.

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*If we are unable to compete successfully on the basis of product innovation, quality, convenience, price and rapid delivery with larger companies that have substantially greater resources and larger distribution networks than us, we may be unable to maintain market share, in which case our sales may not grow and our profitability may be adversely affected.*

The market for I.V. products is intensely competitive. We believe that our ability to compete depends upon continued product innovation, the quality, convenience and reliability of our products, access to distribution channels, patent protection and pricing. The ability to compete effectively depends on our ability to differentiate our products based on safety features, product quality, cost effectiveness, ease of use and convenience, as well as our ability to perceive and respond to changing customer needs. We encounter significant competition in our markets both from large established medical device manufacturers and from smaller companies. Many of these firms have introduced competitive products with protective features not provided by the conventional products and methods they are intended to replace. Most of our current and prospective competitors have economic and other resources substantially greater than ours and are well established as suppliers to the healthcare industry. Several large, established competitors offer broad product lines and have been successful in obtaining full-line contracts with a significant number of hospitals to supply all of their I.V. product requirements. There is no assurance that our competitors will not substantially increase resources devoted to the development, manufacture and marketing of products competitive with our products. The successful implementation of such a strategy by one or more of our competitors could materially and adversely affect us.

*We may not be able to significantly expand our sales of custom I.V. systems, or critical care products, if we are unable to lower manufacturing costs, price our products competitively and shorten delivery times significantly.*

We believe that the success of our I.V. systems operations will depend on our ability to lower per unit manufacturing costs and price our products competitively and on our ability to significantly shorten the time from customer order to delivery of finished product, or both. To reduce costs, we moved labor intensive assembly operations to our facility in Mexico. To shorten delivery times, we developed proprietary systems for order processing, materials handling, tracking, labeling and invoicing and innovative procedures to expedite assembly and distribution operations. Many of these systems and procedures require continuing enhancement and development. There is a possibility that our systems and procedures may not continue to be adequate and meet their objectives.

We are introducing many of the systems and procedures that we used in our I.V. systems operations into the production of critical care products. If we are unable to complete this process successfully, we may not be successful in increasing sales of critical care products.

*If demand for our products were to decline significantly, we might not be able to recover the cost of our expensive automated molding and assembly equipment and tooling, which could have an adverse effect on our results of operations.*

Our production tooling is relatively expensive, with each module, which consists of an automated assembly machine and the molds and molding machines which mold the components, costing several million dollars. Most of the modules are for the CLAVE and the integrated Y-CLAVE. If the demand for either of these products changes significantly, which could happen with the loss of a customer or a change in product mix, it may be necessary for us recognize an impairment charge for the value of the production tooling because its cost may not be recovered through production of saleable product, which could adversely affect our financial condition.

We have been and will be ordering production molds for our new products such as the Spiros closed male luer and Genie vial access device. We have ordered a high speed automated assembly machine for the MicroCLAVE connector and expect to have it in production in the second half of 2009. We expect to order semi-automated or fully automated assembly machines for the other new products in 2009. If we do not achieve significant sales of these new products, it might be necessary for us to recognize an impairment charge for the value of the production tooling because it costs may not be recovered through production of saleable product, which could adversely affect our financial condition.

*If we cannot obtain additional custom tooling and equipment on a timely basis to enable us to meet demand for our products, we might be unable to increase our sales or might lose customers, in which case our sales could decline.*

We expanded our manufacturing capacity substantially in recent years, and we expect continuing expansion will be necessary. Molds and automated assembly machines generally have a long lead-time with vendors, often nine months or longer. Inability to secure such tooling in a timely manner, or unexpected increases in production demands, could cause us to be unable to meet customer orders. Such inability could cause customers to seek alternatives to our products.

*We are increasingly dependent on manufacturing in Mexico and could be adversely affected by any economic or political disruptions*

We continue to expand our production in Mexico. Any political or economic disruption in Mexico or a change in the local economy could have an adverse effect on our operations. In 2008, production costs in Mexico were approximately $58.2 million. Most of the material we use in manufacturing is imported into Mexico, and substantially all the production in Mexico is exported. We depend on our ability to move goods across the border quickly. Any disruption in the free flow of goods across the border could have an adverse effect on our business.

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As of December 31, 2008, we employed 1,165 people in our plant in Ensenada, Mexico and we expect this number to increase during 2009. Business activity in the Ensenada area has expanded significantly, providing increased employment opportunities. This could have an adverse effect on our ability to hire or retain necessary personnel and result in an increase in labor rates. We continue to take steps to compete for labor through attractive employment conditions and benefits, but there is no assurance that these steps will continue to be successful or that we will not face increasing labor costs in the future.

*Increases in the cost of petroleum-based and natural gas-based products or loss of supply could have an adverse effect on our profitability.*

Most of the material used in our products are resins, plastics and other material that depend upon oil or natural gas as their raw material. Crude oil markets are affected by political uncertainty in the Middle East, and there is no assurance that there will not be an interruption in crude oil supplies. Any such interruption could have an adverse effect on our ability to produce, or the cost to produce, our products. Also, crude oil and natural gas prices in 2008 reached record highs. Our suppliers have passed some of their cost increases on to us, and if such prices are sustained or increase further, our suppliers may pass further cost increases on to us. In addition to the effect on resin prices, transportation costs have increased because of the effect of higher crude oil prices, and we believe most of these costs have been passed on to us. Our ability to recover these increased costs may depend upon our ability to raise prices on our products. In the past, we have rarely raised prices and it is uncertain that we would be able to raise them to recover higher prices from our suppliers. Our inability to raise prices in those circumstances , or to otherwise recover these costs, could have an adverse effect on our profitability.

*Because we depend to a significant extent on our founder for new product concepts, the loss of his services could have a material adverse effect on our business.*

We depend on Dr. George A. Lopez, our founder, Chairman of the Board, President and Chief Executive Officer for new product concepts and manufacturing innovation. Dr. Lopez has conceived substantially all of our current and proposed new products and the systems and procedures to be used in the custom I.V. products and their manufacturing. We believe that the loss of his services could have a material adverse effect on our business.

*Our business could be materially and adversely affected if we fail to defend and enforce our patents, if our products are found to infringe patents owned by others or if the cost of patent litigation becomes excessive or as our key patents expire.*

We have patents on certain products, software and business methods, and pending patent applications on other intellectual property and inventions. There is no assurance, however, that patents pending will issue or that the protection from patents which have issued or may issue in the future will be broad enough to prevent competitors from introducing similar devices, that such patents, if challenged, will be upheld by the courts or that we will be able to prove infringement and damages in litigation.

We are substantially dependent upon the patents on our proprietary products, such as the CLAVE, to prevent others from manufacturing and selling products similar to ours. We have pending litigation against Alaris Medical Systems, Inc., a part of Cardinal, for alleged infringement of our patents. We believe the alleged infringement had and continues to have an adverse effect on our sales. Failure to prevail in this or in other litigation we bring against third parties for violating our patents could adversely affect our sales.

We are substantially dependent upon the patents on our proprietary products to prevent others from manufacturing and selling products similar to ours. We generally have multiple patents covering various features of a product, and as each patent expires, the protection afforded by that patent is no longer available to us, even though protection of features that are covered by other unexpired patents may continue to be available to us. The loss of patent protection on certain features of our products may make it possible for others to manufacture and sell products with features similar to ours, which could adversely affect our business.

If others chose to manufacture and sell products similar to or substantially the same as our products, it could have a material adverse effect on our business through loss of unit volume or price erosion, or both, and could adversely affect our ability to secure new business.

In the past, we have faced patent infringement claims related to the CLAVE, the CLC2000 and TEGO. We believe these claims had no merit, and all have been settled or dismissed, although a case involving the CLC2000 is pending on appeal. We may also face claims in the future. Any adverse determination on these claims related to the CLAVE or other products, if any, could have a material adverse effect on our business.

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From time to time we become aware of newly issued patents on medical devices which we review to evaluate any infringement risk. We are aware of a number of patents for I.V. connection systems that have been issued to others. While we believe these patents will not affect our ability to market our products, there is no assurance that these or other issued or pending patents might not interfere with our right or ability to manufacture and sell our products.

There has been substantial litigation regarding patent and other intellectual property rights in the medical device industry. Patent infringement litigation, which may be necessary to enforce patents issued to us or to defend ourselves against claimed infringement of the rights of others, can be expensive and may involve a substantial commitment of our resources which may divert resources from other uses. Adverse determinations in litigation or settlements could subject us to significant liabilities to third parties, could require us to seek licenses from third parties, could prevent us from manufacturing and selling our products or could fail to prevent competitors from manufacturing products similar to ours. Any of these results could materially and adversely affect our business.

For additional information regarding our pending litigation, see Item 3. Legal Proceedings in this document.

*If we are unable to effectively manage our internal growth or growth through acquisitions of companies, assets or products, our financial performance may be adversely affected.*

We intend to continue to expand our marketing and distribution capability internally, by expanding our sales and marketing staff and resources and may expand it externally, by acquisitions both in the United States and foreign markets. We may also consider expanding our product offerings through acquisitions of companies or product lines. We intend to build additional production facilities or contract for manufacturing in markets outside the United States, to reduce labor costs and eliminate transportation and other costs of shipping finished products from the United States and Mexico to customers outside North America. The expansion of our manufacturing, marketing, distribution and product offerings both internally and through acquisitions or by contract may place substantial burdens on our management resources and financial controls. Decentralization of assembly and manufacturing could place further burdens on management to manage those operations, and maintain efficiencies and quality control.

The increasing burdens on our management resources and financial controls resulting from internal growth and acquisitions could adversely affect our operating results. In addition, acquisitions may involve a number of special risks in addition to the difficulty of integrating cultures and operations and the diversion of management s attention, including adverse short-term effects on our reported operating results, dependence on retention, hiring and training of key personnel, risks associated with unanticipated problems or legal liabilities and amortization of acquired intangible assets, some or all of which could materially and adversely affect our operations and financial performance.

*Our ability to market our products in the United States and other countries may be adversely affected if our products or our manufacturing processes fail to qualify under applicable standards of the FDA and regulatory agencies in other countries.*

Government regulation is a significant factor in the development, marketing and manufacturing of our products. Our products are subject to clearance by the United States Food and Drug Administration ( FDA ) under a number of statutes including the Food Drug and Cosmetics Act ( FDC Act ). Each of our current products has qualified, and we anticipate that any new products we are likely to market will qualify, for clearance under the FDA s expedited pre-market notification procedure pursuant to Section 510(k) of the FDC Act. However, certain of our new

products may require a longer time for clearance than we have experienced in the past and there can be no assurance that a PMA application will not be required. Further, there is no assurance that other new products developed by us or any manufacturers that we might acquire will qualify for expedited clearance rather than a more time consuming pre-market approval procedure or that, in any case, they will receive clearance from the FDA. FDA regulatory processes are time consuming and expensive. Uncertainties as to the time required to obtain FDA clearances or approvals could adversely affect the timing and expense of new product introductions. In addition, we must manufacture our products in compliance with the FDA s Quality System Regulations.

The FDA has broad discretion in enforcing the FDC Act, and noncompliance with the FDC Act could result in a variety of regulatory actions ranging from warning letters, product detentions, device alerts or field corrections to mandatory recalls, seizures, injunctive actions and civil or criminal penalties. If the FDA determines that we have seriously violated applicable regulations, it could seek to enjoin us from marketing our products or we could be otherwise adversely affected by delays or required changes in new products. In addition, changes in FDA, or other federal or state, health, environmental or safety regulations or in their application could adversely affect our business.

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To market our products in the European Community ( EC ), we must conform to additional requirements of the EC and demonstrate conformance to established quality standards and applicable directives. As a manufacturer that designs, manufactures and markets its own devices, we must comply with the quality management standards of ISO 13485 (2003). Those quality standards are similar to the FDA s Quality System Regulations. Manufacturers of medical devices must also be in conformance with EC Directives such as Council Directive 93/42/EEC ( Medical Device Directive ) and their applicable annexes. Those regulations assure that medical devices are both safe and effective and meet all applicable established standards prior to being marketed in the EC. Once a manufacturer and its devices are in conformance with the Medical Device Directive, the CE Mark maybe affixed to its devices. The CE Mark gives devices an unobstructed entry to all the member countries of the EC. There is no assurance that we will continue to meet the requirements for distribution of our products in Europe.

Distribution of our products in other countries may be subject to regulation in those countries, and there is no assurance that we will obtain necessary approvals in countries in which we want to introduce our products.

*Product liability claims could be costly to defend and could expose us to loss.*

The use of our products exposes us to an inherent risk of product liability. Patients, healthcare workers or healthcare providers who claim that our products have resulted in injury could initiate product liability litigation seeking large damage awards against us. Costs of the defense of such litigation, even if successful, could be substantial. We maintain insurance against product liability and defense costs in the amount of $10,000,000 per occurrence. There is no assurance that we will successfully defend claims, if any, arising with respect to products or that the insurance we carry will be sufficient. A successful claim against us in excess of insurance coverage could materially and adversely affect us. Furthermore, there is no assurance that product liability insurance will continue to be available to us on acceptable terms.

*Our Stockholder Rights Plan, provisions in our charter documents and Delaware law could prevent or delay a change in control, which could reduce the market price of our common stock.*

On July 15, 1997, our Board of Directors adopted a Stockholder Rights Plan (the Plan ) and, pursuant to the Plan, declared a dividend distribution of one Right for each outstanding share of our common stock to stockholders of record at the close of business on July 28, 1997. The Plan expired in 2007 and our Board of Directors adopted an Amended and Restated Rights Agreement in July 2007. Under its current provisions, each Right entitles the registered holder to purchase from us one one-hundredth of a share of Series A Junior participating Preferred Stock, no par value, at a purchase price of $225 per one one-hundredth of a share, subject to adjustment. The Plan is designed to afford the Board of Directors a great deal of flexibility in dealing with any takeover attempts and is designed to cause persons interested in acquiring us to deal directly with the Board of Directors, giving it an opportunity to negotiate a transaction that maximizes stockholder values. The Plan may, however, have the effect of discouraging persons from attempting to acquire us.

Investors should refer to the description of the Plan in our 2007 10-K filed with the Securities and Exchange Commission.

Our Certificate of Incorporation and Bylaws include provisions that may discourage or prevent certain types of transactions involving an actual or potential change of control, including transactions in which the stockholders might otherwise receive a premium for their shares over then current market prices. In addition, the Board of Directors has the authority to issue shares of Preferred Stock and fix the rights and preferences thereof, which could have the effect of delaying or preventing a change of control otherwise desired by the stockholders. In addition, certain

provisions of Delaware law may discourage, delay or prevent someone from acquiring or merging with us.

*The price of our common stock has been and may continue to be highly volatile due to many factors.*

The market for small-market capitalization companies can be highly volatile, and we have experienced significant volatility in the price of our common stock in the past. From January 2007 through December 2008, our trading price ranged from a high of $45.02 per share to a low of $22.14 per share  We believe that factors such as quarter-to-quarter fluctuations in financial results, differences between stock analysts expectations and actual quarterly and annual results, new product introductions by us or our competitors, changing regulatory environments, litigation, changes in healthcare reimbursement policies, sales or the perception in the market of possible sales of common stock by insiders and substantial product orders could contribute to the volatility in the price of our common stock. General economic trends unrelated to our performance such as recessionary cycles and changing interest rates may also adversely affect the market price of our common stock; the recent macroeconomic downturn could depress our stock price for some time.

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Most of our common stock is held by, or included in accounts managed by, institutional investors or managers. Several of those institutions own or manage a significant percentage of our outstanding shares, with the ten largest interests accounting for 45% of our outstanding shares. If one or more of the institutions should decide to reduce or eliminate its position in our common stock, it could cause a decrease in the price of the common stock that could be significant.

For the past several years there has been a significant short position in our common stock, consisting of borrowed shares sold, or shares sold for future delivery which may not have been borrowed. We do not know whether any of these short positions are covered by long positions owned by the short seller. The short position, as reported by the Nasdaq Stock Market on December 31, 2008 was 1,317,651 shares, or approximately nine percent of our outstanding shares. Any attempt by the short sellers to liquidate their position over a short period of time could cause very significant volatility in the price of our common stock.

*We have outstanding stock options which may dilute the ownership of existing shareholders*

At December 31, 2008, we had outstanding stock options to purchase 2.7 million shares, 70% of which had an exercise price below the market price of our stock. Exercise of those options would dilute the ownership interest of existing shareholders.

*Continued compliance with recent securities legislation could be uncertain and could substantially increase our administrative expenses.*

The Sarbanes-Oxley Act of 2002 imposed significant new requirements on public companies. We have complied with most of these without significant effort or expense. However, compliance with Section 404 of the Sarbanes-Oxley Act of 2002 requiring management to document and report on the effectiveness of internal controls over financial reporting and our independent registered public accounting firm to audit and report on the design and effectiveness of our internal controls over financial reporting has been extremely expensive. Further, there is no certainty that we will continue to receive unqualified reports on our internal controls over financial reporting from our independent registered public accounting firm and what actions might be taken by securities regulators or investors if we are unable to obtain an unqualified report.

**Item 1B. Unresolved Staff Comments.**

None.

**Item 2. Properties.**

We own a 39,000 square foot building and a 28,000 square foot building in San Clemente, California, a 450,000 square foot building in Salt Lake City, Utah, a 37,500 square foot building in Vernon, Connecticut, a 241,000 square foot building on approximately 94 acres of land in Ensenada, Baja California, Mexico, a 17,000 square foot and a 21,000 square foot building in Roncanova, Italy.

**Item 3. 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 through 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, we amended our complaint to allege that Alaris infringes three additional patents. On July 17, 2006, the Court issued an order interpreting certain claims in the asserted patents in a manner that, if upheld, could significantly impair our ability to enforce those patents against Alaris and potentially others. The Court also issued partial summary judgment in favor of Alaris based on one of those interpretations. On January 22, 2007, the Court granted 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. The Court s order adjudicated only the asserted claims of the patents in suit, not other claims in the patents. Following entry of the judgment dismissing our case, the Court heard Alaris motion to recover its fees, costs and expenses, and on April 16, 2007, the Court granted in part Alaris motion. On June 28, 2007, the Court awarded Alaris $4.8 million in fees and costs, which were later increased to $5.0 million, plus post-judgment interest. We have appealed the Court s decisions, and oral argument has been heard by the Federal Circuit Court of Appeal on January 5, 2009. Because the award of fees and costs is a judgment against us and the outcome of the appeal is uncertain, we recorded a charge of $5.0 million in our financial statements for the year ended December 31, 2007. We have not paid the judgment, pending outcome of the appeal.

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In an action filed July 6, 2006 entitled Medegen MMS, Inc. v. ICU Medical, Inc. filed in the United States District Court for the Central District of California, Medegen alleged that ICU Medical infringed one of its patents by offering for sale and selling the CLC2000 and TEGO. Medegen sought monetary damages and injunctive relief. In March 2007, Medegen withdrew its action as to the TEGO. On June 21, 2007, the Court issued an order interpreting certain terms and phrases of Medegen s patent in a manner that we believe supported our position. On September 14, 2007, the Court issued an order granting our summary judgment motion of non-infringement and entered judgment of non-infringement, dismissing Medegen s case with prejudice, on October 19, 2007. On October 19, 2007, the Court also dismissed, without prejudice, our counterclaims that the asserted patent is invalid and unenforceable due to inequitable conduct by Medegen before the United States Patent and Trademark Office. Medegen has appealed the Court s claim construction and summary judgment orders. By decision issued in November 2008, the Federal Circuit reversed the order granting summary judgment and remanded the case to the District Court. In December 2008, ICU filed a Petition for Rehearing En Banc with the Federal Circuit. The Petition remains pending. We intend to defend ourselves against Medegen s claims in this action.

In an action filed July 27, 2007 entitled ICU Medical, Inc. v. RyMed Technologies, Inc. ( RyMed ), in the United States District Court for the District of Delaware, we alleged that RyMed infringes certain of ICU s patents through the manufacture and sale of certain products, including its InVision-Plus valves. We seek monetary damages and injunctive relief and intend to vigorously pursue this matter. RyMed has denied our allegations and sued ICU in the United States District Court for the Central District of California seeking a declaratory judgment of non-infringement and invalidity of our patents and alleging that we have infringed RyMed s trademark and engaged in unfair competition and other improper conduct. RyMed seeks monetary damages and injunctive relief. The Central District Court has transferred the patent claims to Delaware. RyMed s trademark and unfair competition claims remain pending in the Central District of California. ICU will continue to defend itself in the California action, and vigorously pursue its patent infringement claims against RyMed in the Delaware action.

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

Not Applicable.

**Executive Officers of Registrant**

The following table lists the names, ages, certain positions and offices held by our executive officers and key employees. Officers serve at the pleasure of the Board of Directors.

| | Age | Office Held |
|---|---|---|
| George A. Lopez, M.D. | 61 | Chairman of the Board, President and Chief Executive Officer |
| Alison D. Burcar | 36 | Vice President of Marketing |
| Richard A. Costello | 45 | Vice President of Sales |
| Scott E. Lamb | 46 | Chief Financial Officer |

| | | |
|---|---|---|
| Steven C. Riggs | 49 | Vice President of Operations |

Dr. Lopez has served as our Chairman of the Board and Chief Executive Officer since his hire date in 1989. Ms. Burcar, the niece of Dr. Lopez, has served as our Vice President of Marketing since 2002, was our Marketing Operations Manager from 1998 to 2002 and held research and development project/program management positions from 1995 to 1998. Mr. Costello has served as our Vice President of Sales since 1997, was our National Sales Manager from 1996 to 1997 and was a Product Specialist from 1992 to 1996. Mr. Lamb has served as our Chief Financial Officer since 2008 and as our Controller from 2003 to 2008. Mr. Riggs has served as our Vice President of Operations since 2002, was Director of Operations from 1998 to 2002 and was Senior Manager of Quality Assurance and Quality Control from 1992 to 1998.

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**Part II**

**Item 5. Market for Registrant s Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities.**

Our Common Stock has been traded on the NASDAQ Global Select Market under the symbol ICUI since our initial public offering on March 31, 1992. The following table sets forth, for the quarters indicated, the high and low closing prices for our Common Stock quoted by NASDAQ:

| 2008 | High | Low |
|---|---|---|
| First quarter | $ 38.0837.75 | $ 24.19 |
| Second quarter | 30.00 | 22.14 |
| Third quarter | 33.65 | 22.69 |
| Fourth quarter | 35.11 | 24.32 |

| 2007 | High | Low |
|---|---|---|
| First quarter | $ 41.32 | $ 38.01 |
| Second quarter | 44.60 | 39.57 |
| Third quarter | 43.34 | 32.66 |
| Fourth quarter | 40.10 | 35.96 |

We have never paid dividends and do not anticipate paying dividends in the foreseeable future as the Board of Directors intends to retain future earnings for use in our business or to purchase our shares. Any future determination as to payment of dividends or purchase of our shares will depend upon our financial condition, results of operations and such other factors as the Board of Directors deems relevant.

As of January 31, 2009, we had 102 stockholders of record and we believe we have approximately 10,200 beneficial owners of our Common Stock.

We have a 2003 Stock Option Plan under which we may grant options to purchase our Common Stock to our employees and have a 2001 Directors Stock Option Plan under which we may grant options to purchase our Common Stock to our directors. We had a 1993 Stock Incentive Plan, under which we granted options to purchase Common Stock to the employees which expired in January 2005. We also have an Employee Stock Purchase Plan. All plans were approved by our stockholders. Further information about the plans is in Note 2 to the Consolidated Financial Statements. Certain information about the plans at December 31, 2008, is as follows:

| Number of shares to be issued upon exercise of outstanding options, warrants and rights (a) | Weighted-average exercise price of outstanding options, warrants and rights (b) | Number of shares remaining available for future issuance under equity compensation plans (excluding shares reflected in column (a)) (c) |
|---|---|---|
| 2,706,786 | $27.70 | 1,759,586 |

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**Issuer Repurchase of Equity Securities**

In July 2008, our Board of Directors authorized a program to purchase $40.0 million of our common stock. Actual purchases will depend on the stock price, prevailing market and business conditions and other considerations.

The following is a summary of our stock repurchasing activity during the fourth quarter of 2008:

| 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 |
|---|---|---|---|---|
| 10/1/2008 - 10/31/2008 | 60,000 | $ 33.34 | 60,000 | $ 38,000,000 |
| 11/1/2008 - 11/30/2008 | 100,000 | 32.41 | 100,000 | 34,758,000 |
| 12/1/2008 - 12/31/2008 | 20,000 | 30.82 | 20,000 | 34,142,000 |
| Fourth quarter 2008 total | 180,000 | $ 32.54 | 180,000 | 34,142,000 |

COMPARISON OF CUMULATIVE TOTAL RETURN FROM JANUARY 1, 2004 TO DECEMBER 31, 2008 OF ICU MEDICAL, INC., NASDAQ AND NASDAQ MEDICAL DEVICES INDEX

The following graph shows the total stockholder return on our common stock based on the market price of the Common Stock from December 31, 2003 to December 31, 2008 and the total returns of the NASDAQ U.S. Index and NASDAQ Medical Devices, Instruments and Supplies, Manufacturers and Distributers Stocks Index for the same period.

| | 12/31/03 | 12/31/04 | 12/31/05 | 12/31/06 | 12/31/07 | 12/31/08 |
|---|---|---|---|---|---|---|
| ICU Medical, Inc. | $ 100.00 | $ 79.73 | $ 114.35 | $ 118.64 | $ 105.02 | $ 96.65 |
| Nasdaq | $ 100.00 | $ 108.84 | $ 111.16 | $ 122.11 | $ 132.42 | $ 63.80 |
| Nasdaq Medical Devices Index | $ 100.00 | $ 117.16 | $ 128.63 | $ 135.58 | $ 172.38 | $ 92.84 |

Assumes $100 invested on December 31, 2003 in ICU Medical Inc. s Common Stock, the NASDAQ U.S. Index and the Nasdaq Medical Devices, Instruments and Supplies, Manufacturers and Distributers Stocks Index.

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**Item 6. Selected Financial Data.**

ICU MEDICAL, INC.

SELECTED FINANCIAL DATA

| | Year ended December 31, (in thousands, except per share data) | | | | |
|---|---|---|---|---|---|
| | 2008 | 2007 | 2006 | 2005 | 2004 |
| INCOME DATA: | | | | | |
| Revenue | | | | | |
| Net sales | $ 203,026 | $ 185,618 | $ 198,788 | $ 154,621 | $ 72,704 |
| Other | 1,700 | 2,520 | 2,825 | 2,911 | 2,846 |
| Total revenue | 204,726 | 188,138 | 201,613 | 157,532 | 75,550 |
| | | | | | |
| Cost of goods sold | 114,910 | 109,895 | 120,929 | 88,128 | 39,853 |
| Gross profit | 89,816 | 78,243 | 80,684 | 69,404 | 35,697 |
| | | | | | |
| Selling, general and administrative expenses | 53,611 | 45,484 | 44,245 | 36,992 | 26,409 |
| Research and development expenses | 4,822 | 8,111 | 7,659 | 4,817 | 3,376 |
| Gain on sale of building | | | (2,093) | | |
| Total operating expenses | 58,433 | 53,595 | 49,811 | 41,809 | 29,785 |
| | | | | | |
| Income from operations | 31,383 | 24,648 | 30,873 | 27,595 | 5,912 |
| Other income | 4,695 | 8,698 | 4,462 | 2,721 | 1,579 |
| Income before income taxes and minority interest | 36,078 | 33,346 | 35,335 | 30,316 | 7,491 |
| Provision for income taxes | (11,778) | (10,337) | (10,240) | (10,459) | (2,600) |
| Minority interest | | 70 | 565 | 417 | 109 |
| Net income | $ 24,300 | $ 23,079 | $ 25,660 | $ 20,274 | $ 5,000 |
| | | | | | |
| Net income per common share | | | | | |
| Basic | $ 1.72 | $ 1.62 | $ 1.78 | $ 1.47 | $ 0.37 |
| Diluted | $ 1.67 | $ 1.51 | $ 1.64 | $ 1.35 | $ 0.33 |
| Weighted average number of shares | | | | | |
| Basic | 14,144 | 14,282 | 14,412 | 13,811 | 13,691 |
| Diluted | 14,565 | 15,265 | 15,599 | 15,040 | 14,960 |
| Cash dividends per share | $ | $ | $ | $ | $ |
| | | | | | |
| CASH FLOW DATA: | | | | | |
| Total cash flows from operations | $ 30,226 | $ 41,512 | $ 31,608 | $ 27,342 | $ 25,283 |
| | | | | | |
| BALANCE SHEET DATA: | | | | | |
| Cash, cash equivalents, restricted cash and current and long-term investment securities | $ 129,153 | $ 95,643 | $ 116,918 | $ 86,742 | $ 87,341 |
| Working capital | 157,428 | 131,782 | 155,519 | 123,875 | 109,590 |
| Total assets | 283,434 | 242,594 | 244,248 | 204,537 | 164,768 |
| Stockholders equity | 253,031 | 213,904 | 224,887 | 189,198 | 156,348 |

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**Item 7. 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 vascular therapy applications. Our devices are designed to protect patients from catheter related bloodstream infections and healthcare workers from exposure to diseases through accidental needlesticks or hazardous drugs. We are also a leader in the production of custom I.V. systems and we incorporate our proprietary products into many of those custom I.V. systems. In addition, we are 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. 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:* Investment securities consist of commercial paper and pre-refunded municipal bonds, which are classified as available for sale and auction rate securities which are classified as trading. See Item 7A, Quantitative and Qualitative Disclosures about Market Risk. Under our current investment policies, our available for sale securities have no significant difference between the fair value and amortized cost. If there were to be a significant difference, this amount would be reflected as a separate component of stockholders equity.

In January 2008, we adopted SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). SFAS 159 provides companies with an option to report selected financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings at each subsequent reporting date.

In October 2008, we accepted a release and settlement agreement (the Agreement ) from Morgan Stanley & Co. Incorporated ( Morgan Stanley ) that requires Morgan Stanley to purchase $6.1 million of our existing auction rate securities at par value plus accrued interest at various dates from November 2008 August 2009. As of December 31, 2008, $4.6 million of auction rate securities are left to be purchased by Morgan Stanley in accordance with the Agreement.

In October 2008, we accepted an offer from UBS AG ( UBS ), providing us with rights related to our auction rate securities held at UBS, (the Rights ). The Rights permit us to require UBS to purchase our auction rate securities at par value plus accrued interest, at any time during the period June 30, 2010 through July 2, 2012. Conversely, UBS has the right, in its discretion, to purchase or sell our auction rate securities at any time until July 2, 2012, so long as we receive payment at par value upon any sale or disposition. We expect to sell our auction rate securities under the Rights.

The Agreement and Rights both represent a firm agreement in accordance with SFAS 133, which defines a firm agreement as an agreement with an unrelated party, binding on both parties and usually legally enforceable, with the following characteristics: a) the agreement specifies all

significant terms, including the quantity to be exchanged, the fixed price, and the timing of the transaction, and b) the agreement includes a disincentive for nonperformance that is sufficiently large to make performance probable. The enforceability of both the Agreement and Rights results in put options and these should be recognized as free standing assets separate from the auction rate securities. Upon acceptance of the offers from Morgan Stanley and UBS, we recorded $0.5 million as the fair value of the put option assets, with a corresponding credit to other income. The put options do not meet the definition of a derivative instrument under SFAS 133. Therefore, we have elected to measure the put options at fair value under SFAS 159, which permits an entity to elect the fair value option for recognized financial assets, in order to match the changes in the fair value of the auction rate securities. As a result, unrealized gains and losses will be included in earnings in future periods. We expect that future changes in the fair value of the put options will approximate fair value movements in the related auction rate securities.

*Revenue recognition*: We record sales and related costs when ownership of the product transfers to the customer, persuasive evidence of an arrangement exists, collectibility is reasonably assured and the sales price is determinable. 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. Our customers are medical product manufacturers, distributors and 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.

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*Accounts receivable*: Accounts receivable are stated at net realizable value. An allowance is provided for estimated collection losses based on the age of the receivable or 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 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*: 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 finished 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/depreciation*: 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**

In December 2007, the FASB issued SFAS 141R, Business Combinations (SFAS 141R). SFAS 141R amends the requirements for accounting for business combinations. SFAS 141R will be effective for financial statements issued for fiscal years beginning after December 15, 2008. The effect of this pronouncement could have a material impact on our consolidated financial statements if we engage in business combinations since acquisition related expenses that were previously capitalized will now be expensed.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133 ( SFAS 161 ), which requires enhanced disclosures about an entity s derivative and hedging activities. SFAS 161 will be effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. We do not expect SFAS 161 to have a material impact on our results of operations, financial position or cash flows.

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 have furthered this effort to include all of our proprietary devices beyond the CLAVE.

Our largest customer is Hospira. Our relationship with Hospira has been and will continue to be of singular importance to our growth. In the years ended 2008, 2007 and 2006, our revenues from worldwide sales to Hospira were 69%, 73% and 77%, respectively, of total revenues. We expect this percentage will be maintained in the future as a result of sales of CLAVE products, custom I.V. systems, 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 worldwide.

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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. Although overall pricing has been stable recently, the average price of our CLAVE products may decline in the future. 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. 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 2005, we acquired Hospira s Salt Lake City manufacturing facility and entered into the Manufacturing Commercialization and Development Agreement ( MCDA ) with Hospira to produce their 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. We are expanding our custom products business through increased sales to medical product manufacturers, independent distributors and direct sales to the end users of our product. These expansions include our 2008 agreement with Premier and an agreement extension with MedAssets. Both organizations are U.S. healthcare purchasing networks. Custom products, which include custom I.V., custom oncology and custom critical care products, accounted for approximately $70.2 million or 34% of total revenue in 2008. We expect continued increases in sales of custom I.V. systems and custom oncology products. As part of this effort, we have recently introduced a number of new products: the TEGO for use in dialyses, the Orbit 90 diabetes set, and a line of oncology products including the Spiros male luer connector device, the Genie vial access device and custom I.V sets and ancillary products specifically designed for oncology therapy. There is no assurance that we will be successful in finding acquisition opportunities, or in acquiring companies or products, that we will successfully integrate them into our existing business.

Custom products 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 modest growth rate. We also potentially face substantial increases in competition in our CLAVE business. 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 products and other products that lend themselves to customization and new products in the U.S. and international markets.

In 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 U.S. market for most of the critical care products that we sell to Hospira has been declining in recent years. Under the MCDA, we manufacture the products and Hospira is responsible for sales to end customers, and we have little ability to directly influence Hospira s sales and marketing efforts, and our sales under the MCDA are subject to fluctuations over which we have little control.

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.

In December 2008, we signed an agreement to acquire a small manufacturing and distribution company based in Germany for 4.2 million. The products and distribution from this company are in the oncology market. Completion of this acquisition is contingent on final approval from the German court. We expect this process to conclude in the first half of 2009, however, there is no assurance that these expectations will be

realized.

We believe that achievement of our growth objectives worldwide will require increased efforts by us in sales and marketing and product development in these markets.

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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 | 2008 | 2007 | 2006 |
|---|---|---|---|
| CLAVE | 39% | 38% | 34% |
| Custom products | 34% | 31% | 28% |
| Critical care | 18% | 23% | 25% |
| Other products | 8% | 7% | 12% |
| License, royalty and revenue share | 1% | 1% | 1% |
| Total | 100% | 100% | 100% |

We sell our I.V. administration products to independent distributors, direct sales 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. 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, 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 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 and expanded our production facility in Mexico which took over the majority of our manual assembly previously done in Salt Lake City. In 2007, we began a significant initiative to improve production processes, called the ICU Production System or IPS , which we believe will enable us to further improve our manufacturing efficiency. We started IPS in our Mexico facility in 2007 and in our Salt Lake City facility in 2008. These efforts are ongoing in both facilities and will continue in 2009. We may establish additional production facilities outside the U.S. There is no assurance as to the benefits of IPS or our success in establishing manufacturing facilities outside the U.S.

We distribute products through three distribution channels. Product revenues for each distribution channel as a percentage of total channel product revenue were as follows:

| Channel | 2008 | 2007 | 2006 |
|---|---|---|---|
| Medical product manufacturers | 67% | 71% | 76% |
| Independent domestic distributors/direct sales | 18% | 16% | 14% |
| International customers | 15% | 13% | 10% |
| Total | 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.

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***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.

**Year-to-Year Comparisons**

We present summarized income statement data in Item 6. Selected Financial Data. The following table shows, for the three most recent years, the percentages of each income statement caption in relation to revenues.

| | Percentage of Revenues | | |
|---|---|---|---|
| | **2008** | **2007** | **2006** |
| Revenue | | | |
| Net sales | 99% | 99% | 99% |
| Other | 1% | 1% | 1% |
| Total revenues | 100% | 100% | 100% |
| | | | |
| Gross profit | 44% | 42% | 40% |
| | | | |
| Selling, general and administrative expenses | 26% | 24% | 22% |
| Research and development expenses | 2% | 5% | 3% |
| Gain on sale of building | % | % | 1% |
| Total operating expenses | 28% | 29% | 24% |
| | | | |
| Income from operations | 16% | 13% | 16% |
| Other income | 2% | 5% | 2% |
| Income before income taxes and minority interest | 18% | 18% | 18% |
| Income taxes | 6% | 6% | 5% |
| Minority interest | 0% | 0% | 0% |
| Net income | 12% | 12% | 13% |

**Comparison of 2008 to 2007**

Revenues were $204.7 million in 2008, compared to $188.1 million in 2007.

***Distribution channels:*** Net U.S. sales to Hospira in 2008 were $132.6 million, compared to net sales of $129.7 million in 2007. The $2.9 million increase was primarily comprised of a $5.4 million increase in CLAVE sales, a $2.5 million increase in custom product sales, a $0.9 million increase in oncology sales, partially offset by a $7.0 million decrease in critical care product sales. The increase in CLAVE sales was from higher unit sales due to increased market share through Hospira. The unit growth in custom I.V. sets and custom oncology products more than offset the decline we experienced in custom critical care sales. The unit growth in custom I.V. sets was primarily due to the conversion by certain of our customers from a competitor s standard sets to our custom systems. The unit growth in custom oncology is due to a nationwide

product launch of this line in 2008. The decrease in critical care sales was due to lower prices charged under the MCDA and lower unit sales of certain critical care products. We expect a modest growth in sales to Hospira in 2009 from 2008 from increased sales of CLAVE, custom I.V. systems, custom oncology products and new products offsetting declines in critical care and custom critical care products, although there is no assurance that these expectations will be realized.

Net sales to domestic distributors/direct in 2008 (including Canada) were $35.9 million compared to $29.5 million in 2007, an increase of $6.4 million or 22%. The increase was primarily from increased sales in custom products of $4.9 million and CLAVE of $1.1 million. The CLAVE increase is from increased unit volume due to increased market share and demographic growth. The unit growth in custom I.V. sets was primarily due to the conversion by certain of our customers from a competitor s standard sets to our custom systems. The unit growth in custom oncology is due to a nationwide product launch of this line in 2008. We expect comparable increases in domestic distributor sales in 2009 that were experienced in 2008, principally from growth in our custom products and CLAVE products and new product sales, although there is no assurance that these expectations will be realized.

Net sales to international customers (excluding Canada) were $30.8 million in 2008, compared with $23.7 million in 2007. The increased sales were primarily from $4.2 million of increased custom product sales and $1.5 million of increased CLAVE sales. The CLAVE increase is from increased unit volume due to increased market share and demographic growth. The unit growth in custom I.V. sets was primarily due to the conversion by certain of our customers from a competitor s standard sets to our custom systems. The unit growth in custom oncology is due to a nationwide product launch of this line in 2008. Approximately 55% of the increase was attributable to increased sales in Europe and 24% of the increase was attributable to increased sales in the Pacific Rim. We expect modest increases in international customer sales in 2009, primarily from increased custom product sales and oncology product sales, although there is no assurance that these expectations will be realized.

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***Product and other revenue:*** Net sales of CLAVE products increased from $72.3 million in 2007 to $80.6 million in 2008, an increase of $8.3 million or 11%. This increase was from increased sales in all channels from increased market share and demographic growth, including $5.4 million in sales to Hospira. We expect increases in CLAVE product sales in 2009 compared to 2008, although there is no assurance that these expectations will be realized.

Net sales of custom products, which include custom I.V., systems, custom oncology products and custom critical care products, were $70.2 million in 2008 compared to $58.5 million in 2007. This increase was comprised of increased sales of custom oncology products of $8.5 million and custom I.V. systems of $4.0 million, partially offset by a $0.8 million decline in custom critical care sales. The unit growth in custom I.V. sets was primarily due to the conversion by certain of our customers from a competitor s standard sets to our custom systems. The unit growth in custom oncology is due to a nationwide product launch of this line in 2008. The decrease in custom critical care revenue was due to lower unit sales and lower prices to Hospira under the MCDA. We expect increases in custom I.V. system sales and new custom oncology sales. We expect decreases in custom critical care sales from unit volume decreases in 2009 compared to 2008.

Critical care product sales were $36.5 million in 2008 compared to $43.4 million in 2007. This decrease was due to lower unit sales and lower prices to Hospira under the MCDA. We expect further unit volume decreases in 2009 compared to 2008.

Our new oncology product sales, including custom oncology, were $11.8 million in 2008 compared to $0.9 million in 2007.

Other revenue consists of license, royalty and revenue share income and was approximately $1.7 million in 2008 and $2.5 million in 2007. We may receive other license fees or royalties in the future for the use of our technology. There is no assurance as to amounts or timing of any future payments, or whether such payments will be received.

***Gross margins*** for 2008 and 2007 were 44% and 42%, respectively. The margin improvement is attributed to a favorable product mix, improved efficiencies and productivity gains at our Mexico manufacturing facility and an increase in production volumes, offset by an increase in raw material and transportation costs and a decrease in pricing for critical care.

We estimate our gross margin in 2009 will approximate 43-44%. There is no assurance that these expectations will be realized.

***Selling, general and administrative expenses*** **( SG&A )** were $53.6 million and 26% of revenues in 2008, compared with $45.5 million and 24% of revenues in 2007. The increase was primarily from increased compensation and benefits of $2.9 million, stock compensation expense of $0.8 million, sales and marketing promotional costs of $2.1 million and outside services of $1.4 million. The increase in compensation and benefits is primarily in incentive compensation and higher salary costs. We expect SG&A in 2008 to be approximately 26-27% of revenue with the increase principally from the addition of sales personnel, increased travel related expenses, and increased compensation and stock compensation expense. There is no assurance that these expectations will be realized.

***Research and development expenses*** **( R&D )** were $4.8 million and two percent of revenue in 2008 compared to $8.1 million and four percent of revenue in 2007. The decrease is primarily due to our increased focus on our core projects in the latter half of 2008. We expect R&D in 2009 to be one to two percent of revenue, although there is no assurance that these expectations will be realized.

***Other income*** decreased $4.0 million to $4.7 million in 2008 compared to $8.7 million in 2007. Other income in 2008 is primarily comprised of $3.0 million in interest income and $1.8 million of payments from a settlement agreement. Other income in 2007 includes $4.4 million of interest income, an $8.0 million payment to us for a settlement of litigation against a law firm that formerly represented us in patent litigation, and $1.0 million of payment under another settlement agreement, partially offset by a $5.0 million charge for an award against us in our litigation with Alaris Medical Systems. The decrease in interest income was primarily due to lower interest rates.

***Income taxes*** were accrued at an effective tax rate of 33% in 2008 compared to 31% in 2007. The 2008 rate differed from the statutory corporate rate of 35% because of tax credits, tax exempt interest and dividends, Domestic Production Activities exclusions and foreign taxes. We expect our effective tax rate to be approximately 36% in 2009.

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**Comparison of 2007 to 2006**

Revenues were $188.1 million in 2007, compared to $201.6 million in 2006. Revenues in 2006 included $14.6 million of sales from a product we discontinued manufacturing under the MCDA in October 2006 and sales of the Punctur Guard product line that was discontinued in January 2007. Revenues for 2007 and 2006, excluding discontinued products, were $188.1 million and $187.0 million.

***Distribution channels:*** Net U.S. sales to Hospira in 2007 were $129.7 million, compared to net sales of $148.4 million in 2006, a decrease of $18.7 million or 13%. Sales in 2006 include $10.1 million from discontinued product sales. Excluding these sales, 2006 sales were $138.3 million compared to $129.7 million in 2007, a decrease of $8.6 million. The change in revenue was primarily from a decrease in critical care sales of $10.9 million, partially offset by increased custom I.V. system sales of $2.0 million. Of the decrease, $6.1 million was in critical care products, excluding custom products, and $4.8 million was in custom critical care products. The decreases in critical care and custom critical care sales were due to lower unit sales in most products and lower prices under the MCDA. The increased sales in custom I.V. systems were due to increased unit volumes. Custom I.V. system sales were $18.4 million in 2007 compared to $16.3 million in 2006, an increase of 13%. CLAVE sales to Hospira were $53.1 million in 2007, relatively unchanged from $52.8 million in 2006.

Net sales to independent domestic distributors in 2007 (including Canada) were $29.5 million compared to $27.7 million in 2006. Sales in 2006 include $3.1 million of Punctur Guard sales. Excluding Punctur Guard sales, 2006 sales were $24.6 million, for a $4.9 million or 20% increase in 2007. The increased sales were primarily from increases of $3.3 million in custom product sales, $0.9 million in new product sales of TEGO and oncology products and $0.5 million in CLAVE product sales. The increases in custom product and CLAVE sales were due to increased unit volumes.

Net sales to international customers (excluding Canada) were $23.7 million in 2007, compared with $20.6 million in 2006. Sales in 2006 include $1.4 million of Punctur Guard sales. Excluding Punctur Guard sales, 2006 sales were $19.2 million, for a $4.5 million or 24% increase in 2007. The increased sales were primarily from increases of $2.9 million in CLAVE product sales and $1.1 million in custom product sales. These increases were due to increased unit volumes. Approximately 76% of the increase was attributable to increased sales in Europe and 13% of the increase was attributable to increased sales in the Pacific Rim.

***Product and other revenue:*** Net sales of CLAVE products increased from $68.4 million in 2006 to $72.3 million in 2007, an increase of $3.9 million or six percent. This increase was primarily due to increased international sales of $2.9 million and increased domestic distributor sales of $0.5 million.

Net sales of custom products were $58.5 million in 2007 compared to $56.4 million in 2006. Custom I.V. system sales were $45.3 million in 2007, or an increase of $5.8 million from 2006 sales of $39.5 million. This increase was due to increased unit sales across all channels. Custom critical care sales decreased by $4.2 million in 2007 from 2006. This decrease was due to lower unit sales and lower prices to Hospira under the MCDA.

Critical care product sales were $43.4 million in 2007 compared to $49.5 million in 2006. This decrease was due to lower unit sales and lower prices to Hospira under the MCDA.

Sales of other products were $11.4 million and $24.5 million in 2007 and 2006, respectively. The 2006 sales include $9.4 million of sales of a product we no longer manufacturer under the MCDA and $5.2 million of Punctur-Guard product sales (excluding royalties), which was terminated in January 2007.

Other revenue consists of license, royalty and revenue share income and was approximately $2.5 million in 2007 and $2.8 million in 2006. We may receive other license fees or royalties in the future for the use of our technology.

***Gross margins*** for 2007 and 2006 were 42% and 40%, respectively. Production and gross margins were relatively stable in the first and second quarters of 2006. In the third and fourth quarters of 2006, gross margins declined to 39% and 33%, respectively. The decline was caused by temporary production inefficiencies at our factory in Salt Lake City and production inefficiencies at our factory 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 were reduced in 2007. Gross margin was favorably impacted by certain government incentives and unfavorably impacted by a decrease in production volumes.

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***Selling, general and administrative expenses*** **( SG&A )** were $45.5 million and 24% of revenues in 2007, compared with $44.2 million and 22% of revenues in 2006. The increase in costs was primarily due to increased sales and marketing compensation and benefits of $0.9 million, increased stock compensation expense of $0.6 million, increased sales and marketing travel costs of $1.1 million, increased sales and marketing promotional costs, such as trade shows, of $0.9 million, offset by decreased litigation expenses of $2.8 million.

***Research and development expenses*** **( R&D )** were $8.1 million and four percent of revenue in 2007 compared to $7.7 million and three percent of revenue in 2006.

***Other income*** increased $4.2 million to $8.7 million in 2007 compared to $4.5 million in 2006. Other income in 2007 includes $4.4 million of interest income, an $8.0 million payment to us for a settlement of litigation against a law firm that formerly represented us in patent litigation, and $1.0 million of payment under another settlement agreement, partially offset by a $5.0 million charge for an award against us in our litigation with Alaris Medical Systems. Other income in 2006 includes $3.7 million of interest income and $0.8 million of payment under a settlement agreement. The increase in interest income was due to an increase in average invested funds and higher yield rates.

***Income taxes*** were accrued at an effective tax rate of 31% in 2007 compared to 29% in 2006. The 2007 rate differed from the statutory corporate rate of 35% because of tax credits, tax exempt interest and dividends and Domestic Production Activities exclusions.

**Liquidity and Capital Resources**

During 2008, our cash, cash equivalents, restricted cash and current and long-term investment securities increased by $33.5 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 2008, our cash provided by operations was $30.2 million, which was mainly comprised of net income of $24.3 million, depreciation and amortization of $14.2 million, stock compensation expense of $1.9 million, offset by changes in our operating assets and liabilities. The $12.4 million increase in Accounts Receivable was the largest contributor to the change in our operating assets and liabilities. The increase was primarily due to higher sales in the fourth quarter of 2008 compared to 2007.

***Investing Activities:*** During 2008, cash provided by investing activities was $3.6 million. This was primarily comprised of net investment sales of $20.3 million and proceeds on finance loan repayment of $0.6 million, partially offset by restricted cash of $6.0 million, cash paid for

purchases of property and equipment of $11.4 million which were primarily for equipment and mold additions.

In connection with our existing auction rate securities, we have entered into arrangements with each of Morgan Stanley and UBS pursuant to which they will either purchase certain of our existing auction rate securities or sell them, in both cases at a price at least at par value, pursuant to the terms of such arrangements. For additional information, see Investment Securities under our Critical Accounting Policies at the beginning of Item 7 in this report.

We estimate that our capital expenditures in 2009 will approximate $15.0 million. Amounts of spending are estimates and actual spending may substantially differ from those amounts.

***Financing Activities:*** Cash provided by financing activities was $14.0 million in 2008. Cash provided by stock options and the employee stock purchase plan, including tax benefits, was $19.9 million from the sale of 1,221,161 shares. The tax benefits from the exercise of stock options fluctuates based principally on when employees choose to exercise their vested stock options.

In July 2008, we announced program to purchase up to $40.0 million of our common stock. We purchased $5.9 million in the fourth quarter of 2008. Additional share repurchases may be made as we deem appropriate and based upon prevailing market and business conditions.

We have a substantial cash and investment security 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 7A. Quantitative and Qualitative Disclosures about Market Risk. Our liquid investments have very little credit risk or market risk.

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We believe that our existing cash, cash equivalents and investment securities 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, and that we will be able to secure credit if needed because of illiquidity in our investment securities.

**Off Balance Sheet Arrangements**

In the normal course of business, we have agreed to indemnify our officers and directors to the maximum extent permitted under Delaware law and to indemnify customers as to certain intellectual property matters related to sales of our products. There is no maximum limit on the indemnification that may be required under these agreements. 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 Hospira and to provide sales specialists focused on critical care. We believe that our existing cash and investment securities 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. We have excluded from the table below, the FASB Interpretation No. 48 , Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement no. 109 ( FIN 48 ) noncurrent liability of $4.4 million due to the high degree of uncertainty regarding the timing of future cash outflows associated with the FIN 48 liabilities.

| | | **2009 (in thousands)** |
|---|---|---|
| MCDA | $ | 8,693 |
| Property and equipment | | 2,313 |
| Total | $ | 11,006 |

**Forward Looking Statements**

This Annual Report on Form 10-K contains statements relating to ICU Medical, Inc. (including certain projections and business trends) that are forward-looking statements within the meaning of 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), and are subject to the safe harbor created by those sections. All statements included in this Annual Report on Form 10-K, other than those that are purely historical, are forward-looking statements. Words such as expect, believe, anticipate, outlook, could, target, project, intend, plan, seek, estimate, should, may, assume and of such words and similar expressions, also identify forward-looking statements. Forward-looking statements in this Annual Report on Form 10-K include, without limitation, statements regarding:

- 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, selling, general and administrative expense, research and development expense, expanding our workforce, our effective tax rate, future employee behavior, payment of dividends, 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;

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- 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, transportation 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, changes in supply and prices of raw materials, effect of expansion of manufacturing facilities on production efficiencies and resolution of production inefficiencies, business seasonality and fluctuations in quarterly results, operation of certain production equipment, financial health of our distributors, customer ordering patterns, competitive advantages of our current products, cost of compliance with new regulations, 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, loss of Dr. Lopez s services, working capital requirements, liquidity and realizable value of our investment securities, securing of credit lines, future investment alternatives, unexpected property and equipment depreciation, foreign currency denominated financial instruments, foreign exchange risk, our expectations regarding liquidity and capital resources over the next twelve months, investment strategy, capital expenditures, acquisitions of other businesses or product lines, indemnification liabilities, contractual liabilities, sale of our stock by certain individuals and entities, effect of our Stockholder Rights Plan and certain provisions of our Charter and Bylaws.

- general economic and business conditions, both in the U.S. and internationally;

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

- competitive factors, such as product innovation, quality, reliability and convenience of our products, 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.

The forward-looking statements in this report are subject to additional risks and uncertainties, including those set forth in Item 1A Risk Factors and those detailed from time to time in our other filings with the Securities and Exchange Commission. These forward-looking statements are made only as of the date hereof and, except as required by law, we undertake no obligation to update or revise any of them, whether as a result of new information, future events or otherwise.

**Item 7A. Quantitative and Qualitative Disclosures about Market Risk**

We had a portfolio of corporate preferred stocks, federal-tax exempt state and municipal government debt securities, commercial paper and put options of $67.4 million as of December 31, 2008. The put options are enforceable, non-transferrable rights and agreement to purchase our existing auction rate securities at par value plus accrued interest. The securities are all investment grade and we believe that we have minimal exposure to credit risk. As of December 31, 2008, $44.4 million of our marketable securities were invested in pre-refunded municipal securities, $15.4 million were invested in auction rate securities , $7.1 million were invested in commercial paper and $0.5 million were in put option assets related to auction rate securities. The pre-refunded municipal securities are fully escrowed by U.S. government Treasury bills with low market risk. For most of the auction rate securities, dividend and interest rates reset at auction at seven to forty-nine day intervals. As of December 31, 2008, we had declines of $0.5 million in the market values of the auction rate securities. The commercial paper investments are short-term debt issued by corporations with top-tier ratings of P-1/A-1.

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Up until early February 2008, the market for our auction rate securities was highly liquid. However, as a result of liquidity issues in the global credit and capital markets, auctions for all of our auction rate securities failed beginning in February 2008 when sell orders exceeded buy orders. The failures of these auctions do not affect the value of the collateral underlying the auction rate securities, and we continue to earn and receive interest on our auction rate securities at pre-determined formula with spreads tied to particular interest rate indexes. Liquidity has been substantially impaired since February 2008 and accordingly we have substantially reduced our position in these types of investments since that time. We intend to continue our investment objectives of avoiding credit and market risk in the future.

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, commercial paper and corporate preferred stocks in our 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 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 asset position at December 31, 2008 and 2007 were approximately 9.1 million and 4.4 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 to date. We are not dependent upon any single source for any of our principal raw materials and we believe all such materials and products are readily available.

**Item 8. Financial Statements and Supplementary Data.**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders

ICU Medical, Inc.

San Clemente, CA

We have audited the accompanying consolidated balance sheet of ICU Medical, Inc. and subsidiaries (the Company ) as of December 31, 2008, and the related consolidated statements of income, stockholders equity and comprehensive income, and cash flows for the year then ended. Our audit also included the financial statement schedule as of and for the year ended December 31, 2008 listed in the Index at Item 15. We also have audited the Company s internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company s management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and financial statement schedule and an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audit of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed by, or under the supervision of, the company s principal executive and principal financial officers, or persons performing similar functions, and effected by the company s board of directors, management, and other personnel 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. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the ICU Medical, Inc. and subsidiaries as of December 31, 2008 and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ Deloitte & Touche, LLP

Costa Mesa, California

February 20, 2009

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders

ICU Medical, Inc.

We have audited the accompanying consolidated balance sheet of ICU Medical, Inc. and subsidiaries as of December 31, 2007, and the related consolidated statements of income, stockholders equity and comprehensive income and cash flows for each of the two years in the period ended December 31, 2007. Our audits also included the financial statement schedules of ICU Medical, Inc. listed in Item 15(a). These financial statements and schedules are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ICU Medical, Inc. and subsidiaries as of December 31, 2007, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

/s/ McGladrey & Pullen, LLP
Irvine, California

February 21, 2008

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**ICU MEDICAL, INC. AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

(Amounts in thousands, except share and per share data)

| | December 31, 2008 | 2007 |
|---|---|---|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 55,6966 | $ 7,873 |
| Investment securities | 56,093 | |

(22) Consists of 333,458 shares of common stock held by Citadel Securities LLC. Citadel Securities LLC is a registered-broker dealer and, accordingly, may be deemed to be an underwriter. The shares of common stock held by Citadel Securities LLC were acquired in the ordinary course of its investment business and not for the purpose of resale or distribution. Citadel Securities LLC has not participated in the distribution of the shares on behalf of the issuer.

(23) Concerto Asset Management, LLC is the investment manager for Concerto Credit Opportunity Master Fund I, LP.

(24) CQS Directional Opportunities Master Fund Limited and Kivu Investment Fund Limited are referred to as the CQS Funds. CQS Cayman LP (the CQS Investment Manager ) is the investment manager of the CQS Funds. CQS (US) LLC and CQS (UK) LLP (the Delegated Managers ) have been delegated discretionary portfolio management and advisory functions for the CQS Funds. The portfolio manager is Mark Unferth (the Portfolio Manager ). The Portfolio Manager may, under Rule 13d-3 of the Exchange Act, be deemed to beneficially own the securities held by the CQS Funds. The CQS Investment Manager, the Delegated Managers and the Portfolio Manager disclaim beneficial ownership of such securities except to the extent of their respective pecuniary interests therein.

(25) Cyrus Capital Partners, L.P. ( CCP ) is the investment manager for Cyrus Opportunities Master Fund II, Ltd. ( COMFII ), Cyrus Select Opportunities Master Fund, Ltd. ( CSOMF ), Cyrus Europe Master Fund, Ltd. ( CEMF ), CRS Fund, Ltd. ( CRS ) and Crescent 1, L.P. ( Crescent and, together with COMFII, CSOMF, CEMF and CRS, collectively, the Cyrus Funds ). COMFII s shares include 260,447 shares underlying warrants to purchase shares of our common stock. CSOMF s shares include 54,257 shares underlying warrants to purchase shares of our common stock. CEMF s shares include 5,420 shares underlying warrants to purchase shares of our common stock. CRS s shares include 113,946 shares underlying warrants to purchase shares of our common stock. Crescent s shares include 108,514 shares underlying warrants to purchase shares of our common stock. Cyrus Capital Partners GP, L.L.C. ( CCPGP ) is the general partner of CCP. Stephen C. Freidheim ( SCF ) is the managing member of CCPGP and the Chief Investment Officer of CCP. CCP, CCPGP and SCF may be deemed to beneficially own the securities held by the Cyrus Funds. CCP, CCPGP and SCF each disclaim beneficial ownership of such securities except to the extent of their pecuniary interests therein.

(26) CSS LLC is a registered broker-dealer and, accordingly, may be deemed to be an underwriter. The shares of common stock held by CSS LLC were acquired in the ordinary course of its investment business and not for the purpose of resale or distribution of the shares on behalf of its issuer.

(27) Cumberland GP LLC, Cumberland Benchmarked GP LLC and LongView B GP LLC ( The GP LLC Entities ) are the general partners of Cumberland Partners, Cumberland Benchmarked Partners, L.P. and LongView Partners B, L.P., respectively. Each fund is the beneficial owner of our common stock. Cumberland Associates is the investment manager of Cumber International S.A., the beneficial owner of VCS. Gary G. Tynos, Bruce G. Wilcox and Andrew M. Wallach are the managing members of each GP LLC Entity and Cumberland Associates LLC.

(28) Includes 139,925 shares underlying warrants to purchase shares of our common stock. Includes shares owned by M.H. Davidson & Co. ( Co ), Davidson Kempner Institutional Partners, L.P. ( DKIP ), Davidson Kempner Partners ( DKP ), Davidson Kempner International, Ltd. ( DKIL ), Davidson Kempner Distressed Opportunities Fund LP ( DKDOF ) and Davidson Kempner Distressed Opportunities International Ltd. ( DKDOI and, together with Co, DKIP, DKP, DKIL and DKDOF, the DK Funds ). Davidson Kempner Capital Management LLC, acting through its affiliates pursuant to various advisory agreements ( DKCM ), is the ultimate investment manager (directly and indirectly) for each of the DK Funds. DKCM has overall responsibility for investment decisions made on behalf of the DK Funds. Thomas L. Kempner, Jr. serves as the Executive Managing Member of each investment manager entity. The other partners of the

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investment managers are Stephen M. Dowicz, Scott E. Davidson, Timothy I. Levart, Robert J. Brivio, Jr., Eric P. Epstein, Anthony A. Yoseloff, Avram Z. Friedman, Conor Bastable and Michael Herzog. Each such person disclaims ownership of any securities of the DK Funds except to the extent of their pecuniary interests therein.

(29) Para Advisors LLC ( Para Advisors ) is the investment manager for Para Partners, L.P. ( Para Partners ) and the trading advisor for dbX-Risk Arbitrage Fund 4 Fund (the dbX-Risk Arbitrage Fund and together with Para Partners, the Para Funds ). Mr. Ned Sadaka is the manager of Para Advisors and also serves as the managing member of the general partner of Para Partners. Para Advisors and Mr. Sadaka may be deemed to beneficially own the securities held by the Para Funds. Para Advisors and Mr. Sadaka each disclaim beneficial ownership of such securities except to the extent of their pecuniary interests therein.

(30) Consists of 1,919,734 shares of common stock held by Deutsche Bank Securities Inc. including 114,106 shares underlying warrants to purchase shares of our common stock. Deutsche Bank Securities Inc. is a registered-broker dealer and, accordingly, may be deemed to be an underwriter. The shares of common stock held by Deutsche Bank Securities Inc. were acquired in the ordinary course of its investment business and not for the purpose of resale or distribution. Deutsche Bank Securities Inc. has not participated in the distribution of the shares on behalf of the issuer. Deutsche Bank AG, of which Deutsche Bank Securities Inc. is an indirect, wholly-owned subsidiary, is a widely held company.

(31) Eos Mortar Rock Capital Management, LLC ( EMR Management ) is the investment manager for EMR Master Fund, Ltd. ( EMR Master ). The managing members of EMR Management are Steven M. Friedman, Brian D. Young and Randy Saluck and the non-managing member is Broco Capital Corporation (collectively, the EMR Managers ). EMR Management and each of the EMR Managers may be deemed to beneficially own the securities held by EMR Master. EMR Management and each of the EMR Managers each disclaim beneficial ownership of such securities except to the extent of their pecuniary interests therein.

(32) Evolution Capital Management LLC ( ECMLLC ) is the investment manager for Evolution Master Fund Ltd. SPC, Segregated Portfolio M ( M Fund ). M Fund is the beneficial owner of the registrable securities. ECMLLC disclaims beneficial ownership of such securities except to the extent of its pecuniary interests therein.

(33) Oak Hill Advisors, L.P. ( OHA ) is the investment manager for Future Fund Board of Guardians, Lerner Enterprises, LLC, Oak Hill Credit Opportunities Financing, Ltd., OHA Strategic Credit Master Fund, L.P., OHA Strategic Credit Master Fund II, L.P. and OHSF II Financing Ltd. (the Oak Hill Funds ). Future Fund Board of Guardians shares include 6,275 shares underlying warrants to purchase shares of our common stock. Lerner Enterprises, LLC s shares include 571 shares underlying warrants to purchase shares of our common stock. Oak Hill Credit Opportunities Financing, Ltd. s shares include 12,894 shares underlying warrants to purchase shares of our common stock. OHA Strategic Credit Master Fund, L.P. s shares include 39,024 shares underlying warrants to purchase shares of our common stock. OHA Strategic Credit Master Fund II, L.P. s shares include 11,182 shares underlying warrants to purchase shares of our common stock. OHSF II Financing Ltd. s shares include 21,337 shares underlying warrants to purchase shares of our common stock. Oak Hill Advisors GenPar, L.P. ( GenPar ) is the general partner of OHA. GenPar is controlled by Glenn R. August, William H. Bohnsack, Jr., Scott D. Krase, Robert B. Okun, Alan Schrager and Carl Wernicke. OHA, GenPar and Messrs. August, Bohnsack, Krase, Okun, Schrager and Wernicke may be deemed to beneficially own the securities held by the Oak Hill Funds. OHA, GenPar and Messrs. August, Bohnsack, Krase, Okun, Schrager and Wernicke each disclaim beneficial ownership of such securities except to the extent of their pecuniary interests therein.

(34) Includes 12,115 shares underlying warrants to purchase shares of our common stock. Galileo Partners, LLC ( Galileo Partners ) is the general partner of Galileo Partners Fund I, L.P ( GPFI ). Mr. Howard Deshong is the

manager of Galileo Partners. Mr. Deshong and Galileo Partners may be deemed to beneficially own the securities held by GPFI. Galileo Partners and Mr. Deshong each disclaim beneficial ownership of such securities except to the extent of their pecuniary interests therein.

(35) General American Investors Company, Inc. is an internally managed closed-end investment company registered under the Investment Company Act of 1940. General American Investors Company, Inc. is the sole beneficial owner (without qualification or exception) of 60,000 shares of Registrable Securities and has full authority to vote and directly dispose of such securities.

(36) Kleinheinz Capital Partners, Inc. ( KCP Inc. ) is the investment manager of Global Undervalued Securities Fund, LP, Global Undervalued Securities Fund (QP), LP, and Global Undervalued Securities Fund, Ltd. (the Global Funds ). The Global Funds are general partners of Global Undervalued Securities Master Fund, L.P. (the Master Fund ). Kleinheinz Capital Partners, LDC ( KCP LDC ) is the general partner of Global Undervalued Securities Fund, LP and Global Undervalued Securities Fund (QP), LP. KCP Inc. also serves as investment manager to the Master Fund. John B. Kleinheinz is the principal of KCP Inc. and KCP LDC. KCP Inc., KCP LDC, the Global Funds and Mr. Kleinheinz each disclaim beneficial ownership of such securities except to the extent of their pecuniary interests therein.

(37) Includes 3,029 shares underlying warrants to purchase shares of our common stock. Grantham, Mayo, Van Otterloo & Co. LLC ( GMO ) is the investment manager for GMO Mean Reversion Fund (Onshore), a series of GMO Master Portfolios (Onshore), L.P. (the Reversion Fund ). GMO Investment Partners LLC ( GMOIP ) is the general partner of GMO Master Portfolios (Onshore), L.P., and GMO serves as managing member of GMOIP. GMO and GMOIP are not the selling security holder and each of GMO and GMOIP disclaim beneficial ownership of such securities held by the Reversion Fund.

(38) Includes 61,468 shares underlying warrants to purchase shares of our common stock. Goldman, Sachs & Co. ( Goldman Sachs ), a New York limited partnership, is a member of the New York Stock Exchange and other national exchanges. Goldman Sachs is a direct and indirect wholly-owned subsidiary of The Goldman Sachs Group, Inc. ( GS Group ). GS Group, a Delaware corporation, is a bank and financial holding company that (directly or indirectly through subsidiaries or affiliated companies or both) is a leading global investment banking, securities and investment management firm. Goldman Sachs is a registered-broker dealer and, accordingly, may be deemed to be an underwriter. The shares of common stock held by Goldman Sachs were acquired in the ordinary course of its investment business and not for the purpose of resale or distribution. Goldman Sachs has not participated in the distribution of the shares on behalf of the issuer. GS Group may be deemed to beneficially own the securities held by Goldman Sachs. GS Group disclaims beneficial ownership of such securities except to the extent of its pecuniary interest therein.

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(39) Great Oaks Capital Management, LLC, is the investment manager for Great Oaks Strategic Investment Partners, LP. Andrew K. Boszhardt, Jr. is the general partner and managing partner of Great Oaks Strategic Investment Partners, L.P.

(40) GSO Capital Partners LP is the investment manager of GSO Special Situations Fund LP and GSO Special Situations Overseas Master Fund Ltd. GSO Advisor Holdings L.L.C. is the general partner of GSO Capital Partners LP. Blackstone Holdings I L.P. is the sole member of GSO Advisor Holdings L.L.C. Blackstone Holdings I/II GP Inc. is the general partner of Blackstone Holdings I L.P. The Blackstone Group L.P. is the sole shareholder of Blackstone Holdings I/II GP Inc. Blackstone Group Management L.L.C. is the general partner of The Blackstone Group L.P. Stephen A. Schwarzman is the founding member of Blackstone Group Management L.L.C. In addition, each of Bennett J. Goodman, J. Albert Smith III and Douglas I. Ostrover serves as an executive of GSO Capital Partners LP. Each of the above, other than GSO Special Situations Fund LP and GSO Special Situations Overseas Master Fund Ltd., disclaims beneficial ownership of the shares held by each of GSO Special Situations Fund LP and GSO Special Situations Overseas Master Fund Ltd., except to the extent of such party s pecuniary interest therein. Each selling stockholder is an affiliate of a broker-dealer and has certified that it bought the securities in the ordinary course of business, and at the time of the purchase of the securities to be resold, it had no agreements or understandings, directly or indirectly, with any person to distribute the securities.

(41) Mason Capital Management LLC is the investment manager for Mason Capital L.P., Mason Capital Master Fund, L.P. and Guggenheim Portfolio Company X, LLC (collectively, the Mason Funds ). The managing members of Mason Capital Management LLC are Kenneth Garschina and Michael Martino (collectively the Mason Capital Managers ). The Mason Funds and each of the Mason Capital Managers may be deemed to beneficially own the securities held by the Mason Funds. The Mason Funds and each of the Mason Capital Managers each disclaim beneficial ownership of such securities except to the extent of their pecuniary interests therein.

(42) HFR RVA Advent Global Opportunity Master Trust s shares include 351 shares underlying warrants to purchase shares of our common stock. The Advent Global Opportunity Master Fund s shares include 270 shares underlying warrants to purchase shares of our common stock. Advent Capital Management, LLC is the investment manager for The Advent Global Opportunity Master Fund. Advent Capital Management, LLC disclaims beneficial ownership of such securities except to the extent of their pecuniary interests therein.

(43) Does not include 102,500 shares held by Integrated Core Strategies (US) LLC. Millennium International Management LP, a Delaware limited partnership ( Millennium International Management ), is the investment manager to ICS Opportunities, Ltd., an exempted limited company organized under the laws of the Cayman Islands ( ICS Opportunities ), and may be deemed to have shared voting control and investment discretion over securities owned by ICS Opportunities. Millennium International Management GP LLC, a Delaware limited liability company ( Millennium International Management GP ), is the general partner of Millennium International Management and may also be deemed to have shared voting control and investment discretion over securities owned by ICS Opportunities. Millennium Management LLC, a Delaware limited liability company ( Millennium Management ), is the general partner of the 100% shareholder of ICS Opportunities and may be deemed to have shared voting control and investment discretion over securities owned by ICS Opportunities. Israel A. Englander, a United States citizen, is the managing member of Millennium International Management GP and of Millennium Management and consequently may also be deemed to have shared voting control and investment discretion over securities owned by ICS Opportunities.

(44)

Directed Services LLC ( DSL ) and Janus Capital Management LLC ( JCM ) act as the investment adviser and sub-adviser, respectively, to the ING Janus Contrarian Portfolio (the ING Portfolio ) and each have discretionary investment authority over the ING Portfolio, respectively, including the power to dispose, or to direct the disposition of securities. The managing member of JCM is Janus Capital Group Inc. ( JCG ). JCM, JCG and DSL may be deemed to beneficially own the securities held by the ING Portfolio. JCM, JCG, and DSL each disclaim beneficial ownership of such securities except to the extent of their pecuniary interests therein.

(45) Jabre Capital Partners S.A. is the investment manager of: JABCAP Global Balanced Master Fund Limited, JABCAP (LUX) Global Balanced and Lexicon Fund.

(46) Janus US High Yield Fund s shares include 48,780 shares underlying warrants to purchase shares of our common stock. Janus High-Yield Fund s shares include 65,326 shares underlying warrants to purchase shares of our common stock. JCM acts as the investment adviser to the Janus Investment Fund and as sub-adviser to Janus Capital Funds P.L.C. and has discretionary investment authority over the Janus High-Yield Fund and Janus US High Yield Fund (collectively, the Janus High Yield Funds ), respectively, including the power to dispose, or to direct the disposition of securities. The managing member of JCM is JCG. JCM and JCG may be deemed to beneficially own the securities held by the Janus High Yield Funds. JCM and JCG each disclaim beneficial ownership of such securities except to the extent of their pecuniary interests therein.

(47) JCM acts as the investment adviser to the Janus Investment Fund and has discretionary investment authority over the Janus Long/Short Fund and Janus Contrarian Fund (collectively, the Janus Funds ), including the power to dispose, or to direct the disposition of securities. The managing member of JCM is JCG. JCM and JCG may be deemed to beneficially own the securities held by the Janus Funds. JCM and JCG each disclaim beneficial ownership of such securities except to the extent of their pecuniary interests therein.

(48) T. Rowe Price Associates, Inc. ( TRPA ) serves as investment adviser with power to direct investments and/or sole power to vote the securities owned by John Hancock Funds II MidCap Value Fund, John Hancock Trust Mid Value Trust, Laborer s District Council & Contractors Pension Fund of Ohio, Science Applications International Corporation Retirement Plans Committee, State of California, T. Rowe Price Mid-Cap Value Fund, Inc. and T. Rowe Price U.S. Equities Trust (the Accounts ), as well as securities owned by certain other individual and institutional investors. For purposes of reporting requirements of the Securities Exchange Act of 1934, TRPA may be deemed to be the beneficial owner of all of the shares held by the Accounts; however, TRPA expressly disclaims that it is, in fact, the beneficial owner of such securities. TRPA is the wholly owned subsidiary of T. Rowe Price Group, Inc., which is a publicly traded financial services holding company. T. Rowe Price Investment Services, Inc. ( TRPIS ), a registered broker-dealer, is a subsidiary of T. Rowe Price Associates, Inc., the investment adviser to the Accounts. TRPIS was formed primarily for the limited purpose of acting as the principal

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underwriter of shares of the funds in the T. Rowe Price fund family. TRPIS does not engage in underwriting or market-making activities involving individual securities.

(49) Duquesne Capital Management, LLC may be deemed to beneficially own such securities by virtue of its position as investment manager of Windmill Master Fund LP and Juggernaut Fund, L.P. Stanley F. Druckenmiller may be deemed to beneficially own such securities by virtue of his position as managing member of Duquesne Capital and as managing member of Duquesne Holdings, LLC (General Partner). Duquesne Capital, Duquesne Holdings, and Mr. Druckenmiller each disclaim beneficial ownership of such securities except to the extent of their pecuniary interests therein.

(50) Karsch Capital Management, LP is an SEC registered investment advisor ( KCM ) and acts as the investment manager for Karsch Capital Ltd., Karsch Capital II, Ltd and KCM Plus, Ltd. Karsch Associates, LLC, the general partner of Karsch Capital II, LP, has delegated investment management functions to KCM.

(51) Kazazian Capital Master Fund, LP has voting power and investment power and may be deemed to beneficially own securities held by the fund.

(52) Spectrum Group Management LLC ( SGM ) is the investment manager for SIPI Master Ltd. ( SIPI Master ) and Khroma Special Situations Master SPC Ltd. ( Khroma Master and together with SIPI Master, the Spectrum Funds ). The Managing Member of SGM is Jeffrey Schaffer. SGM and Jeffrey Schaffer may be deemed to beneficially own the securities held by the Spectrum Funds. SGM and Jeffrey Schaffer each disclaim beneficial ownership of such securities except to the extent of their pecuniary interests therein.

(53) Pine River Capital Management L.P. ( PRCM LP ) is the investment manager of LMA SPC for and on behalf of the MAP89 Segregated Portfolio and Pines Edge Value Investors Ltd. (the Pine River Funds ). Pine River Capital Management LLC ( PRCM LLC ) is the general partner of PRCM LP. The sole managing member of PRCM LLC is Brian Taylor. PRCM LP, PRCM LLC and Brian Taylor may be deemed to beneficially own the securities held by the Pine River Funds. PRCM LP, PRCM LLC and Brian Taylor each disclaim beneficial ownership of such securities, except to the extent of their pecuniary interests therein.

(54) Loeb Arbitrage Management LP ( LAM ) serves as the investment advisor of LLT Limited. The general partner of LAM is Loeb Management Holding LLC, whose owners are Loeb Holding Corporation and LB Partners, L.P. LAM may be deemed to beneficially own the securities held by the LLT. Loeb Management Holding LLC, Loeb Holding Corporation and LB Partners, L.P. each disclaim beneficial ownership of such securities except to the extent of their pecuniary interests therein.

(55) LAM serves as the investment advisor and general partner of Loeb Arbitrage Fund. Loeb Offshore Management LP ( LOM ) serves as the investment manager of Loeb Arbitrage Offshore Partners, Ltd. The general partner of LAM and LOM is Loeb Management Holding LLC, whose owners are Loeb Holding Corporation and LB Partners, L.P. LAM and LOM may be deemed to beneficially own the securities held by LAF and LAOP. Loeb Management Holding LLC, Loeb Holding Corporation and LB Partners, L.P. each disclaim beneficial ownership of such securities except to the extent of their pecuniary interests therein.

(56) Riva Ridge Capital Management L.P. ( RRCM ) serves as (i) investment manager to Riva Ridge Master Fund, Ltd. ( Riva Ridge ) and (ii) sub-advisor to Mariner Investment Group, LLC, who is investment manager to Mariner LDC ( LDC and, together with Riva Ridge, the RRCM Funds ). LDC s shares include 61,503 shares underlying warrants to purchase shares of our common stock. Riva Ridge GP LLC, GP ( Riva GP ) is the general partner to RRCM. The managing members of Riva GP are Stephen Golden and James Shim (collectively the Riva Managers ). RRCM, Riva GP and each of the Riva Managers may be deemed to beneficially own the

securities held by the RRCM Funds. RRCM, Riva GP and each of the Riva Managers each disclaim beneficial ownership of such securities except to the extent of their pecuniary interests therein.

(57) Tricadia Capital Management, LLC ( TCM ) is the Investment Manager for Mariner-Tricadia Credit Strategies Master Fund, Ltd. ( MTCS ) and Structured Credit Opportunities Fund II, LP ( SCOPESII ). Tricadia Holdings, L.P. ( Tricadia Holdings ) wholly owns TCM. Tricadia Holdings GP, LLC ( Holdings GP ) is the general partner of Tricadia Holdings. Michael Barnes and Arif Inayatullah are the managing members of Holdings GP. Accordingly, TCM, Tricadia Holdings, Holdings GP, Mr. Barnes and Mr. Inayatullah may be deemed to beneficially own the securities held by MTCS and SCOPESII. TCM, Tricadia Holdings, Holdings GP, Mr. Barnes and Mr. Inayatullah each disclaim beneficial ownership of such securities, except to the extent of their respective pecuniary interests therein.

(58) EBF & Associates, L.P. ( EBF ) is the investment adviser to Merced Partners Limited Partnership ( Merced LP ). Global Capital Management, Inc. ( GCM ) is the general partner of EBF. EBF and GCM are the co-general partners of Merced LP, and GCM is the general partner of EBF. Michael J. Frey is the majority owner of EBF and the majority owner, Chairman and CEO of GCM. EBF, GCM, and Michael J. Frey may be deemed to beneficially own the securities held by the Merced LP. EBF, GCM, and Michael J. Frey each disclaim beneficial ownership of such securities except to the extent of their pecuniary interest therein.

(59) Includes 17,127 shares underlying warrants to purchase shares of our common stock held by Monarch Capital Master Partners II-A LP, 49,682 shares underlying warrants to purchase shares of our common stock held by Monarch Capital Master Partners LP, 7,154 shares underlying warrants to purchase shares of our common stock held by Monarch Cayman Fund Limited, 62,941 shares underlying warrants to purchase shares of our common stock held by Monarch Debt Recovery Master Fund Ltd, 34,026 shares underlying warrants to purchase shares of our common stock held by Monarch Opportunities Master Fund Ltd and 5,933 shares underlying warrants to purchase shares of our common stock held by Oakford MF Limited. Monarch Alternative Capital LP ( MAC ) serves as advisor to Monarch Master Funding Ltd, Monarch Debt Recovery Master Fund Ltd, Oakford MF Limited, Monarch Cayman Fund Limited, Monarch Opportunities Master Fund Ltd, Monarch Capital Master Partners LP and Monarch Capital Master Partners II-A LP. MDRA GP LP ( MDRA GP ) is the general partner of MAC and Monarch GP LLC ( Monarch GP, together with MDRA GP and MAC, Monarch Management ) is the general partner of MDRA GP. Each of Monarch Management may be deemed to beneficially own the registrable securities by virtue of their positions. Each of Monarch Management disclaims beneficial ownership of such securities except to the extent of its pecuniary interests therein.

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(60) Does not include 2,308 shares held by Morgan Stanley Smith Barney and 3 shares held by Morgan Stanely Capital Services, Inc. Shares to be registered consist of 862,824 shares of our common stock held by Morgan Stanley & Co. Incorporated, including 13,898 shares underlying warrants to purchase shares of our common stock. Morgan Stanley & Co. Incorporated is a registered-broker dealer and, accordingly, may be deemed to be an underwriter with respect to the securities it sells pursuant to the prospectus. The shares of common stock held by Morgan Stanley & Co. Incorporated were acquired in the ordinary course of its investment business and not for the purpose of resale or distribution. Morgan Stanley & Co. Incorporated has not participated in the distribution of the shares on behalf of the issuer.

(61) Stephen Kotsen is the Portfolio Manager at NCRAM and has the power to vote or dispose of the shares of common stock held by such selling stockholder. Consequently, Mr. Kotsen may be deemed to be the beneficial owner of such shares, however, Mr. Kotsen disclaims any beneficial ownership. Certain affiliates of NCRAM are members of FINRA.

(62) Does not include 25,000 shares held by James Cacioppo. One East Partners Capital Management LLC is the general partner of One East Partners Master LP. The managing member of One East Partners Capital Management LLC is James Cacioppo. One East Partners Capital Management LLC and James Cacioppo may be deemed to beneficially own the securities held by the One East Partners Master LP. One East Partners Capital Management LLC and James Cacioppo each disclaim beneficial ownership of such securities except to the extent of their pecuniary interests therein.

(63) Overland Advisors, LLC s shares include 3,459 shares underlying warrants to purchase shares of our common stock. Wells Fargo & Co s shares include 10,366 shares underlying warrants to purchase shares of our common stock. Overland Advisors serves as an investment manager for Overland Advisors, LLC and Wells Fargo & Co.

(64) Pandora Select Partners, LP ( PSP ) is the registered holder of the registrable securities. Pandora Select Advisors, LLC ( PSA ) is the General Partner to PSP. AJR Financial, LLC ( AJR ) is the Managing Member of PSA, and Whitebox Advisors, LLC ( WBA ) is the sole member of AJR. AJR, WBA, and PSA each disclaim beneficial ownership of such securities except to the extent of their pecuniary interests therein.

(65) Stone Lion Capital Partners L.P. ( Stone Lion Capital ) is the investment manager for Stone Lion Portfolio L.P. ( Stone Lion Portfolio ) and Permal Stone Lion Fund Ltd. (collectively with Stone Lion Portfolio, the Stone Lion Funds ). Stone Lion Capital may be deemed to beneficially own the securities held by the Stone Lion Funds.

(66) Plainfield Asset Management LLC ( Plainfield Asset Management ) is the investment manager of Plainfield Special Situations Master Fund II Limited ( Plainfield Master Fund II ), a private investment vehicle. Max Holmes, an individual, is the chief investment officer of Plainfield Asset Management. Max Holmes, Plainfield Asset Management and Plainfield Master Fund II are referred to collectively as the Plainfield Persons. The Plainfield Persons own an aggregate of 15,131 shares, of which 15,111 shares are also registrable securities. Plainfield Master Fund II directly owns 15,111 registrable securities. Max Holmes owns 20 shares, none of which are registrable securities, and warrants convertible into 31 shares of our common stock. Each of the Plainfield Persons disclaims beneficial ownership of all securities described above for which it is not the record owner, and this description shall not be deemed an admission that any of the Plainfield Persons is a beneficial owner of the securities for purposes of Section 16 of the Exchange Act or except to the extent of their pecuniary interest therein.

(67) Quad Capital LLC s current holdings consist of 61,480 shares of common stock, held at its clearing firm, Goldman Sachs. Quad Capital LLC is a registered-broker dealer operating under a JBO with Goldman Sachs. It

is aware that under certain readings, it may be deemed to be an underwriter. The shares of common stock held by Quad Capital LLC were acquired in the ordinary course of its proprietary trading business, and since it has no customers or beneficial owners for these shares, but rather owns them in its own account solely, cannot utilize them for the purpose of resale or distribution as those activities are understood in this context. Quad Capital LLC has not participated in the distribution of the shares on behalf of the issuer. Quad is a privately held company that reports monthly via the FOCUS system to the USSEC.

(68) QVT Financial LP is the investment manager for Quintessence Fund L.P. and QVT Fund LP and shares voting and investment control over the securities held by Quintessence Fund L.P. and QVT Fund LP. QVT Financial GP LLC is the general partner of QVT Financial LP and as such has complete discretion in the management and control of the business affairs of QVT Financial LP. QVT Associates GP LLC is the general partner of Quintessence Fund L.P. and QVT Fund LP and may be deemed to beneficially own the securities held by Quintessence Fund L.P. and QVT Fund LP. The managing members of QVT Associates GP LLC are Daniel Gold, Nicholas Brumm, Arthur Chu and Tracy Fu. Each of QVT Financial LP, QVT Financial GP LLC, Daniel Gold, Nicholas Brumm, Arthur Chu and Tracy Fu disclaims beneficial ownership of the securities held by Quintessence Fund L.P. and QVT Fund LP. QVT Associates GP LLC disclaims beneficial ownership of the securities held by Quintessence Fund L.P. and QVT Fund LP, except to the extent of its pecuniary interest therein.

(69) Saxon Strategic Funds, LLC has voting power and investment power and may be deemed to beneficially own securities held by the fund.

(70) Seneca Capital Investments, L.P. ( Seneca LP ) is the investment manager for Seneca Capital, L.P. ( Seneca ). Seneca s shares include 5,487 shares underlying warrants to purchase shares of our common stock. Seneca Capital Investments, L.L.C. ( Seneca LLC ) is the general partner of Seneca LP. Seneca Capital Advisors, L.L.C. ( Seneca Advisors ) is the general partner of Seneca. Douglas Hirsch is the managing member of each of Seneca LLC and Seneca Advisors. Each of Seneca LP, Seneca LLC, Seneca Advisors and Mr. Hirsch disclaims beneficial ownership of such securities except to the extent of its or his pecuniary interest therein.

(71) Silver Point Capital, L.P. ( Silver Point ) is the investment manager of Silver Point Capital Fund, LP and Silver Point Capital Offshore Master Fund, LP. Messrs. Edward A. Mule and Robert J. O Shea each indirectly control Silver Point and by virtue of such status may be deemed to be natural control persons with respect to the securities covered by this questionnaire. Messrs. Mule and O Shea disclaim beneficial ownership of such securities, except to the extent of any pecuniary interest, and this report shall not be deemed to be an admission that they are the beneficial owners of such securities.

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(72) Sola Ltd. s shares include 228,213 shares underlying warrants to purchase shares of our common stock. Solus Alternative Asset Management LP ( Solus ) is the investment advisor for Sola Ltd ( Sola Master ) and Solus Core Opportunities Master Fund Ltd ( Core Master and, together with Sola Master, the Solus Funds ). Sola Master s shares include 228,213 shares underlying warrants to purchase shares of our common stock. Solus GP LLC ( Solus GP ) is the general partner of Solus. The Managing Member of Solus GP is Christopher Pucillo (the Managing Member ). Solus, Solus GP and the Managing Member may be deemed to beneficially own the securities held by the Solus Funds. Solus, Solus GP and the Managing Member each disclaim beneficial ownership of such securities except to the extent of their pecuniary interests therein.

(73) Stark Criterion Management LLC ( Stark Criterion ) is the investment manager of Stark Criterion Master Fund Ltd. ( Criterion Master ). The managing members of Stark Criterion are Michael Roth and Brian Stark (collectively, the Stark Managers ). Stark Criterion and the Stark Managers may be deemed to beneficially own the securities held by Criterion Master. Stark Criterion and the Stark Managers each disclaim beneficial ownership of such securities except to the extent of their pecuniary interests therein.

(74) Stark Offshore Management LLC ( Stark Offshore ) is the investment manager of Stark Master Fund Ltd. ( Stark Master ). The managing members of Stark Offshore are the Stark Managers. Stark Offshore and the Stark Managers may be deemed to beneficially own the securities held by Stark Master. Stark Offshore and the Stark Managers each disclaim beneficial ownership of such securities except to the extent of their pecuniary interests therein.

(75) Includes 9,440 shares underlying warrants to purchase shares of our common stock. Stonehill Capital Management LLC, a Delaware limited liability company ( SCM ), is the investment adviser of Stonehill Institutional Partners, L.P. ( Stonehill Institutional ). Stonehill General Partner, LLC, a Delaware limited liability company ( Stonehill GP ), is the general partner of Stonehill Institutional. By virtue of such relationships, SCM and Stonehill GP may be deemed to have voting and dispositive power over the shares of common stock owned by Stonehill Institutional. SCM and Stonehill GP disclaim beneficial ownership of such shares of common stock. Mr. John Motulsky, Mr. Christopher Wilson, Mr. Wayne Teetsel, Mr. Thomas Varkey, Mr. Jonathan Sacks, and Mr. Peter Sisitsky (collectively, the Stonehill Members ) are the managing members of SCM and Stonehill GP, and may be deemed to have shared voting and dispositive power over the shares of common stock owned by Stonehill Institutional. The Stonehill Members disclaim beneficial ownership of such securities.

(76) Includes 19,352 shares underlying warrants to purchase shares of our common stock. SCM is the investment adviser and a director of Stonehill Master Fund Ltd. ( Stonehill Master ). By virtue of such relationships, SCM may be deemed to have voting and dispositive power over the shares of common stock owned by Stonehill Master. SCM disclaims beneficial ownership of such shares of common stock. The Stonehill Members are the managing members of SCM, and may be deemed to have shared voting and dispositive power over the shares of common stock owned by Stonehill Master. The Stonehill Members disclaim beneficial ownership of such securities.

(77) Suttenbrook Capital Management LP ( SBCMLP ) is the investment manager for Suttonbrook Capital Portfolio LP and Suttonbrook Eureka Fund LP (collectively the Funds ). John London is the controlling individual of SBCMLP. SBCMLP and John London may be deemed beneficial owners of the securities held by the Funds. SBCMLP and John London each disclaim beneficial ownership of such securities except to the extent of their investment management responsibilities.

(78) Taconic Capital Advisors L.P. and Taconic Capital Advisors UK LLP are the investment managers for Taconic Opportunity Fund L.P. and Taconic Opportunity Master Fund L.P. (together, the Taconic Opportunity Funds ).

Taconic Associates LLC is the general partner of each of the Taconic Opportunity Funds. Taconic Capital Performance Partners LLC is the general partner of Taconic Capital Advisors L.P. The managing members of Taconic Capital Performance Partners LLC are Kenneth D. Brody and Frank P. Brosens (collectively, the Taconic Managers ). Taconic Capital Advisors, L.P., Taconic Associates LLC, Taconic Capital Performance Partners LLC and each of the Taconic Managers may be deemed to beneficially own the securities held by the Taconic Opportunity Funds. Taconic Capital Advisors L.P., Taconic Associates LLC, Taconic Capital Performance Partners LLC and each of the Taconic Managers each disclaim beneficial ownership of such securities except to the extent of their pecuniary interests therein.

(79) Consists of 1,244,574 shares of common stock held by UBS Securities, LLC including 280,184 shares underlying warrants to purchase shares of our common stock. UBS Securities LLC is a registered-broker dealer and, accordingly, may be deemed to be an underwriter. The shares of common stock held by UBS Securities, LLC were acquired in the ordinary course of its investment business and not for the purpose of resale or distribution. UBS Securities, LLC has not participated in the distribution of the shares on behalf of the issuer.

(80) Includes 6,093 shares underlying warrants to purchase shares of our common stock. Venor Capital Management LP is the investment manager for Venor Capital Master Fund Ltd. Venor Capital Management GP LLC is the general partner of Venor Capital Management LP. The managing members of Venor Capital Management GP LLC are Jeffrey Bersh and Michael Wartell. Venor Capital Management LP, Venor Capital Management GP LLC, Jeffrey Bersh, and Michael Wartell may be deemed to beneficially own the securities held by Venor Capital Master Fund Ltd. Venor Capital Management LP, Venor Capital Management GP LLC, Jeffrey Bersh and Michael Wartell each disclaim beneficial ownership of such securities except to the extent of their pecuniary interests therein.

(81) Verition Fund Management LLC is the investment manager for Verition Multi-Strategy Master Fund Ltd. The managing member of Verition Fund Management LLC is Nicholas Maounis. Verition Fund Management LLC and Nicholas Maounis may be deemed to beneficially own the securities held by Verition Multi-Strategy Master Fund Ltd. Verition Fund Management LLC and Nicholas Maounis each disclaim beneficial ownership of such securities except to the extent of their pecuniary interests therein.

(82) Includes 605 shares underlying warrants to purchase shares of our common stock. Includes 20,003 shares registered by Morgan Stanley & Co. Incorporated on behalf of VSO Master Fund Ltd. ( VSO Master Fund ). VSO Capital Management, LLC ( VSO Management ) is the investment manager for VSO Master Fund, VSO Fund, Ltd. ( VSO Fund ) and VSO Partners, LP ( VSO Partners and, collectively, the VSO Funds ). VSO Capital GP, LLC ( VSO Capital ) is the general partner of VSO Partners. The managing member of VSO Management and VSO Capital is Alex Lagetko (the VSO Manager ). VSO Management, VSO Capital and the VSO Manager may be deemed to beneficially own the securities held by the VSO Funds. VSO Management, VSO Capital and the VSO Manager each disclaim beneficial ownership of such securities except to the extent of their pecuniary interests therein.

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(83) Whitebox Advisors, LLC ( WA ) is the investment advisor to, and the managing member of, Whitebox Credit Arbitrage Advisors, LLC ( WCAA ). WCAA is the general partner of Whitebox Credit Arbitrage Partners, LP ( WCAP ). WA and WCAA may be deemed to beneficially own the securities held by WCAP. WA and WCAA each disclaim beneficial ownership of such securities except to the extent of their pecuniary interests therein.

(84) WA is the investment advisor to, and the managing member of, Whitebox Multi-Strategy Advisors, LLC ( WMSA ). WMSA is the general partner of Whitebox Multi-Strategy Partners, LP ( WMSP ). WA and WMSA may be deemed to beneficially own the securities held by WMSP. WA and WMSA each disclaim beneficial ownership of such securities except to the extent of their pecuniary interests therein.

(85) YAM Investments LLC is a single member LLC whose sole member is Pamela Yee.

## RELATED PARTY TRANSACTIONS AND MATERIAL RELATIONSHIPS WITH SELLING STOCKHOLDERS

*Dura Automotive.* During 2009, Visteon and our subsidiaries purchased various automotive sub-components totaling approximately $425,000 from Dura Automotive LLC and its subsidiaries in the ordinary course of their businesses. We expect that we will continue to make similar purchases during 2010 and beyond. Mr. Leuliette, a director of Visteon, was the Chairman, President and Chief Executive Officer of Dura Automotive LLC, as well as Managing Director of Patriarch Partners LLC, the majority shareholder of Dura Automotive LLC until October 14, 2010.

*Registration Rights Agreement.* We entered into a Registration Rights Agreement (the Registration Rights Agreement ) with the selling stockholders party thereto. Pursuant to the Registration Rights Agreement, among other things, we are required to use its reasonable best efforts to file within fourteen business days after the effective date of the Plan of Reorganization a registration statement on any permitted form that qualifies, and is available for, the resale of registrable securities , as defined in the Registration Rights Agreement, with the SEC in accordance with and pursuant to Rule 415 promulgated under the Securities Act. Registrable securities are shares of our common stock, par value $0.01, issued or issuable on or after the Effective Date to any of the original parties to the Registration Rights Agreement, including, without limitation, upon the conversion of our outstanding warrants, and any securities paid, issued or distributed in respect of any such common stock, but excluding shares of common stock acquired in the open market after such date.

At any time and from time to time after such a registration statement has been declared effective by the SEC, any one or more holders of registrable securities may request to sell all or any portion of their registrable securities in an underwritten offering, provided that such holder or holders will be entitled to make such demand only if the total offering price of the registrable securities to be sold in such offering is reasonably expected to exceed, in the aggregate, $75 million. We are not obligated to effect more than three such underwritten offerings during any period of twelve consecutive months during the first two-year period after the effective date of the Plan of Reorganization, and two such underwritten offerings during any period of twelve consecutive months following the first two-year period after such effective date. In either case, we are not obligated to effect such an underwritten offering within 120 days after the pricing of a previous underwritten offering.

We are required, no later than the effective date of the registration statement of which this prospectus is a part, to use our reasonable best efforts to be listed on a national securities exchange, if so requested by the holders of a majority interest in the outstanding registrable securities.

When we propose to offer shares in an underwritten offering whether for our own account or the account of others, holders of registrable securities will be entitled to request that their registrable securities be included in such offering,

subject to specific exceptions.

Upon Visteon becoming a well-known seasoned issuer, we are required to promptly register the sale of all of the registrable securities under an automatic shelf registration statement, and to cause such registration statement to remain effective thereafter until there are no longer registrable securities.

The registration rights granted in the Registration Rights Agreement are subject to customary indemnification and contribution provisions, as well as customary restrictions such as minimums, blackout periods and, if a registration is for an underwritten offering, limitations on the number of shares to be included in the underwritten offering may be imposed by the managing underwriter.

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The foregoing description of the Registration Rights Agreement does not purport to be complete and is qualified in its entirety by reference to the full text of the Registration Rights Agreement.

*Equity Commitment Agreement.* Pursuant to an Equity Commitment Agreement, dated as of May 6, 2010, among Visteon and the selling stockholders party thereto (together, the Investors ) (as amended by that certain First Amendment to the Equity Commitment Agreement, dated as of June 13, 2010, among Visteon and the Investors, and the Second Amendment to the Equity Commitment Agreement, dated as of June 20, 2010, among Visteon and the Investors, the Third Amendment to the Equity Commitment Agreement, dated as of August 9, 2010, among Visteon, the Investors, and the other selling stockholders party thereto (the Additional Purchasers ), and the Fourth Amendment to the Equity Commitment Agreement, dated as of October 1, 2010, among Visteon, the Investors, and the Additional Purchasers, the ECA ), (i) we conducted a rights offering (the Rights Offering ) whereby certain holders of our then existing unsecured notes elected to purchase on the Effective Date 34,310,200 shares of our new common stock for $27.69 per share (the Share Price ) and (ii) the Investors and the Additional Purchasers purchased on the Effective Date, respectively, 10,690,344 shares of our common stock (the Direct Subscription Shares ) and 144,456 shares of our new common stock at the Share Price. In addition, in accordance with the ECA, we paid: (i) a $43,750,000 fee to the Investors as compensation for their agreement to purchase the Direct Subscription Shares and any shares of our new common stock included, but not subscribed for, in the Rights Offering, 25% of which was paid upon entry of the order approving the ECA and the remaining portion of which was paid on the Effective Date; (ii) a $16,625,000 fee on the Effective Date to certain of the Investors as compensation for arranging the transactions contemplated by the ECA; and (iii) certain out of pocket costs and expenses reasonably incurred by the Investors and the Additional Purchasers in connection with the ECA. The shares of our new common stock discussed above were offered and sold pursuant to exemptions from the registration requirements of Section 5 of the Securities Act, as set forth in section 4(2) of the Securities Act and Regulation D promulgated thereunder.

*Credit Facilities.* On October 1, 2010, the Company entered into a new term loan credit agreement, by and among the Company as borrower, certain of the Company s subsidiaries as guarantors, the lenders party thereto and Morgan Stanley Senior Funding, Inc., as lead arranger, sole bookrunner, collateral agent and administrative agent, which provides for a $500 million secured term loan facility. Additionally, on October 1, 2010, the Company entered into a new revolving loan credit agreement, by and among the Company and certain of the Company s subsidiaries, as borrowers, the lenders party thereto and Morgan Stanley Senior Funding, Inc., as administrative agent, co-collateral agent, syndication agent, joint lead arranger and joint bookrunner, Bank of America, N.A., as joint lead arranger, co-collateral agent and co-documentation agent, and Barclays Capital, as joint bookrunner and co-documentation agent, which provides for a $200 million asset-based revolving credit facility. Certain of the selling stockholders are parties to (or are affiliates of parties to) the term loan facility and/or the asset-based revolving credit facility.

## DESCRIPTION OF CAPITAL STOCK

The following summary of the terms of our capital stock is not meant to be complete and is qualified in its entirety by reference to our second amended and restated certificate of incorporation, our second amended and restated bylaws and the provisions of applicable law. Copies of our second amended and restated certificate of incorporation and our second amended and restated bylaws are filed as exhibits to the Registration Statement on Form 8-A filed with the SEC on September 30, 2010 and are incorporated herein by reference.

### Authorized Capital Stock upon Emergence

Visteon has the authority to issue a total of 300,000,000 shares of capital stock, consisting of:

250,000,000 shares of common stock, par value $0.01 per share; and

50,000,000 shares of preferred stock, par value $0.01 per share.

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**Common Stock**

The rights, preferences and privileges of holders of our common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of our preferred stock which we may designate and issue in the future.

*Dividend Rights.* Subject to limitations under Delaware law, preferences that may apply to any outstanding shares of preferred stock, and contractual restrictions, holders of our common stock are entitled to receive ratably dividends or other distributions when and if declared by the board of directors. In addition to such restrictions, whether any future dividends are paid will depend on decisions that will be made by the board of directors and will depend on then existing conditions, including our financial condition, contractual restrictions, corporate law restrictions, capital requirements and business prospects. The ability of the board of directors to declare dividends also will be subject to the rights of any holders of outstanding shares of our preferred stock and the availability of sufficient funds under the Delaware General Corporation Law ( DGCL ) to pay dividends.

*Liquidation Rights.* In the event of any liquidation, dissolution or winding up of Visteon, the holders of our common stock will be entitled to share in the net assets of Visteon available after the payment of all debts and other liabilities and subject to the prior rights of any outstanding class of our preferred stock.

*Preemptive Rights.* Pursuant to our second amended and restated certificate of incorporation, the holders of our common stock have no preemptive rights.

*Conversion Rights.* Shares of our common stock are not convertible.

*Voting Rights.* Subject to the rights of the holders of any series of our preferred stock, each outstanding share of our common stock is entitled to one vote on all matters submitted to a vote of stockholders. The holders of our common stock will not have cumulative voting rights.

**Warrants to Purchase Common Stock**

Pursuant to the Plan of Reorganization, we issued warrants to purchase 2,355,000 shares of our common stock to holders of our 12.25% senior notes issued (the Ten Year Warrants ). The Ten Year Warrants have an exercise price of $9.66 per share of common stock. Each of the Ten Year Warrants expires ten years after the date of issuance. The warrants provide for a cashless exercise by the warrant holder. The warrant exercise price and the number of shares issuable upon exercise of the warrants are subject to adjustment upon certain events including: stock subdivisions, combinations, splits, stock dividends, capital reorganizations, or capital reclassifications of common stock and in connection with certain distributions of cash, assets or securities. The Ten Year Warrants are not redeemable.

Pursuant to the Plan of Reorganization, we issued 1,552,774 warrants to purchase shares of our common stock to holders of shares of our previously outstanding common stock, which were cancelled pursuant to the Plan of Reorganization (the Five Year Warrants ). The Five Year Warrants have an exercise price of $58.80 per share. Each of the Five Year Warrants expires five years after the date of issuance. The Five Year Warrants provide for a cashless exercise by the warrant holder. The warrant exercise price and the number of shares issuable upon exercise of the warrants are subject to adjustment upon certain events including: stock subdivisions, combinations, splits, stock dividends, capital reorganizations, or capital reclassifications of common stock and in connection with certain distributions of cash, assets or securities. The Five Year Warrants are not redeemable.

**Preferred Stock**

Under the terms of our second amended and restated certificate of incorporation, the board of directors is authorized to issue from time to time up to an aggregate of 50,000,000 shares of preferred stock and to fix or alter the designations, preferences, rights and any qualifications, limitations or restrictions of the shares of each series, including the dividend rights, dividend rates, conversion rights, voting rights, rights and terms of redemption (including sinking fund provisions), redemption price or prices, liquidation preferences and the number of shares constituting any series. These additional shares may be used for a variety of corporate purposes, including future public offerings, to raise additional capital or to facilitate acquisitions. If the board of directors decides to issue

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shares of preferred stock to persons supportive of current management, this could render it more difficult or discourage an attempt to obtain control of Visteon by means of a merger, tender offer, proxy contest or otherwise. Authorized but unissued shares of preferred stock also could be used to dilute the stock ownership of persons seeking to obtain control of Visteon. To the extent required by 11 U.S.C. § 1123(a)(6), Visteon is prohibited from issuing shares of nonvoting equity securities (within the meaning of such statute).

**Certain Anti-Takeover Effects of our Certificate of Incorporation, our Bylaws and Delaware Law**

*Provisions of Delaware Law.* Visteon is a Delaware corporation subject to Section 203 of the DGCL. Section 203 provides that, subject to certain exceptions specified in the law, a Delaware corporation shall not engage in certain business combinations with any interested stockholder for a three-year period after the date of the transaction in which the person became an interested stockholder unless:

prior to such time, the board of directors of the corporation approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder;

upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding certain shares; or

at or subsequent to that time, the business combination is approved by the board of directors of the corporation and authorized by the affirmative vote of holders of at least 662/3% of the outstanding voting stock that is not owned by the interested stockholder.

Generally, a business combination includes a merger, asset or stock sale or other transaction resulting in a financial benefit to the interested stockholder. Subject to certain exceptions, an interested stockholder is a person who, together with that person s affiliates and associates, owns, or within the previous three years did own, 15% or more of the voting stock of the corporation.

Under certain circumstances, Section 203 makes it more difficult for a person who would be an interested stockholder to effect various business combinations with a corporation for a three-year period. The provisions of Section 203 may encourage companies interested in acquiring Visteon to negotiate in advance with our board of directors because the stockholder approval requirement would be avoided if our board of directors approves either the business combination or the transaction that results in the stockholder becoming an interested stockholder. These provisions also may make it more difficult to accomplish transactions that stockholders may otherwise deem to be in their best interests.

*Board of Directors.* Our second amended and restated certificate of incorporation and our second amended and restated bylaws provide that the number of directors shall be fixed by the board of directors from time to time. The board of directors shall initially consist of the nine members identified in the Plan of Reorganization and shall always consist of not less than 3 nor more than 15 members. Under our second amended and restated bylaws, at all meetings of stockholders for the election of directors at which a quorum is present, a plurality of the votes cast shall be sufficient to elect a director. Under our second amended and restated certificate of incorporation and our second amended and restated bylaws, a vote of a majority of all then outstanding capital stock entitled to vote at an election of directors is required to remove a director with or without cause and fill the resulting vacancy, except that any director elected separately by the holders of any class or series of stock shall be subject to removal with or without cause at any time by such stockholders, who will fill the resulting vacancy. Vacancies resulting from newly created directorships by reason of an increase in the size of the board of directors shall be filled by a majority vote of the board of directors, provided a quorum is present. Further, vacancies resulting from reasons other than removal or an increase in the size of the board of directors shall be filled by a majority vote of the board of directors, even if less

than a quorum. These provisions may deter a stockholder from removing incumbent directors and simultaneously gaining control of the board of directors by filling the vacancies created by this removal with its own nominees.

*Advance Notice Procedures.* Our second amended and restated bylaws establish an advance notice procedure for stockholder proposals to be brought before a meeting of stockholders, including proposed nominations of persons for election to the board of directors. Stockholders at a meeting will only be able to consider proposals or nominations specified in the notice of meeting or brought before the meeting by or at the direction of the board of

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directors or by a stockholder who was a stockholder of record on the record date for the meeting, who is entitled to vote at the meeting and who has given our corporate secretary timely written notice, in proper form, of the stockholder s intention to bring that business before the meeting. Although our second amended and restated bylaws will not give the board of directors the power to approve or disapprove stockholder nominations of candidates or proposals regarding other business to be conducted at a special or annual meeting, our second amended and restated bylaws may have the effect of precluding the conduct of certain business at a meeting if the proper procedures are not followed or may discourage or deter a potential acquirer from conducting a solicitation of proxies to elect its own slate of directors or otherwise attempting to obtain control of the company.

*Action by Written Consent; Special Meetings of Stockholders.* Our second amended and restated certificate of incorporation provides that stockholder action can be taken only at an annual or special meeting of stockholders and cannot be taken by written consent in lieu of a meeting. Our second amended and restated certificate of incorporation and our second amended and restated bylaws provide that, except as otherwise required by law, special meetings of the stockholders can only be called by our chairman of the board, our chief executive officer, pursuant to a resolution adopted by a majority of our board of directors or by our secretary following receipt of one or more demands to call a special meeting of the stockholders, in accordance with the provisions of our second amended and restated bylaws, from stockholders who hold, in the aggregate, at least twenty percent of the voting power of all shares entitled generally to on the election of directors (without reference to any terms of any preferred stock).

*Authorized but Unissued Shares.* Our authorized but unissued shares of common stock and preferred stock will be available for future issuance without stockholder approval, subject to the rules and regulations of any applicable stock exchange or similar rules. These additional shares may be utilized for a variety of corporate purposes, including future public offerings to raise additional capital, corporate acquisitions and employee benefit plans. The existence of authorized but unissued shares of common stock and preferred stock could render more difficult or discourage an attempt to obtain control of a majority of our common stock by means of a proxy contest, tender offer, merger or otherwise.

*Limitations on Directors and Officers Liability.* Our second amended and restated certificate of incorporation contains a provision eliminating the personal liability of our directors to Visteon or any of its stockholders for monetary damages for breach of fiduciary duty to the fullest extent permitted by applicable law. Our second amended and restated certificate of incorporation and our second amended and restated bylaws also contain provisions generally providing for indemnification and prepayment of expenses to our directors and officers to the fullest extent permitted by applicable law.

*Amendment of Certificate of Incorporation and Bylaws.* Our second amended and restated certificate of incorporation expressly authorizes the board of directors to adopt, amend, alter or repeal most provisions of our second amended and restated bylaws by a majority vote. The stockholders may also adopt, amend, alter or repeal our second amended and restated bylaws. Stockholder approval is also required to amend, alter, change or repeal any provision of our second amended and restated certificate of incorporation or our second amended and restated bylaws inconsistent with any provision in our second amended and restated certificate of incorporation or our second amended and restated bylaws that requires a particular vote of stockholders in order to take the action specified in such provision.

*Tax Benefit Preservation.* Our second amended and restated certificate of incorporation provides, subject to certain exceptions therein, that any attempted transfer of Visteon s securities prior to the earliest of:

December 31, 2019,

the repeal, amendment or modification of Section 382 of the Internal Revenue Code of 1986, as amended ( Section 382 ) in such a way as to render the restrictions imposed by Section 382 no longer applicable to

Visteon,

the beginning of a taxable year of Visteon in which no net operating loss carryovers, capital loss carryovers, alternative minimum tax credit carryovers and foreign tax credit carryovers or any loss or deduction attributable to a net realized built-in loss within the meaning of Section 382 of Visteon or any of its direct or indirect subsidiaries ( Tax Benefits ) are available, and

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the date on which the limitation amount imposed by Section 382 in the event of an ownership change of Visteon would not be materially less than the net operating loss carry forward or net unrealized built-in loss of Visteon (the earliest of such dates being the Restriction Release Date ), or

any attempted transfer of Visteon s securities pursuant to an agreement entered into prior to the Restriction Release Date, shall be prohibited and void ab initio insofar as it purports to transfer ownership or rights in respect of such stock to the purported transferee:

if the transferor is a person or group of persons that is identified as a 5-percent shareholder of Visteon pursuant to Treasury Regulation § 1.382-2T(g) other than a direct public group as defined in such regulation (a Five-Percent Stockholder ), or

to the extent that, as a result of such transfer, either any person or group of persons shall become a Five-Percent Stockholder or the percentage stock ownership interest in Visteon of any Five-Percent Stockholder shall be increased.

These restrictions could prohibit or delay the accomplishment of an ownership change with respect to Visteon by (i) discouraging any person or group from being a Five-Percent Stockholder and (ii) discouraging any existing Five-Percent Stockholder from acquiring more than a minimal number of additional shares of Visteon s stock.

*Business Opportunities.* In recognition that our investors and their officers, directors, agents, stockholders, members, partners, affiliates and subsidiaries may serve as our directors and/or officers and that our investors may engage in similar activities or lines of business that we do, our second amended and restated certificate of incorporation provides for the allocation of certain business opportunities between us and our investors. Specifically, none of our investors or any officer, director, agent, stockholder, member, partner or affiliate of an investor has any duty to refrain from engaging directly or indirectly in the same or similar business activities or lines of business that we do. In the event that any investor acquires knowledge of a potential transaction or matter which may be a business opportunity for itself and us, we will not have any expectancy in such business opportunity, and the investor will not have any duty to communicate or offer such business opportunity to us and may pursue or acquire such business opportunity for itself or direct such opportunity to another person. In addition, if a director or officer of us who is also an officer, director, agent, stockholder, member, partner or affiliate of any investor acquires knowledge of a potential transaction or matter which may be a business opportunity for us and an investor, we will not have any expectancy in such business opportunity unless such business opportunity is expressly offered to such person solely in his or her capacity as a director or officer of us.

No such person shall be liable to Visteon or any of its subsidiaries for breach of any fiduciary or other duty, as a director or officer or otherwise, by reason of the fact that such person pursues or acquires such business opportunity, directs such business opportunity to another person or fails to present such business opportunity, or information regarding such business opportunity, to Visteon or its subsidiaries.

These provisions of our certificate of incorporation are permitted by Section 122 of the DGCL, and, accordingly, we and all of our stockholders will be subject to them.

*Transactions with Interested Directors or Officers.* In recognition that we may engage in material business transactions with one or more of our directors or officers, an entity in which one or more of our directors or officers are its directors or officers or have a financial interest, our second amended and restated bylaws provide that such a contract or transaction will not be void or voidable solely because a director or officer is interested, or solely because the director or officer is present at or participates in the meeting which authorizes the contract or transaction, or solely

because such person s votes are counted for such purpose if:

the material facts as to such person s or persons relations or interest as to the contract or transaction are disclosed or are known to the board of directors or the committee, and the board of directors or committee in good faith authorizes the contract or transaction by the affirmative vote of a majority of disinterested directors, even though the number of disinterested directors may be less than a quorum; or

the material facts as to such person s or person s relationship or interest as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the stockholders; or

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the contract or transaction is fair as to us as of the time it is authorized, approved or ratified by the board of directors, a committee thereof or the stockholders.

**Transfer Agent and Registrar**

Mellon Investor Services LLC is the transfer agent and registrar for our common stock.

**Listing of Our Common Stock**

Currently, our common stock is quoted on the OTC Bulletin Board under the trading symbol VSTO.OB .

## SHARES ELIGIBLE FOR FUTURE SALE

Future sales of substantial amounts of our common stock in the public market, or the perception that such sales may occur, could adversely affect the prevailing market price of our common stock. No prediction can be made as to the effect, if any, future sales of shares, or the availability of shares for future sales, will have on the market price of our common stock prevailing from time to time.

**Sale of Restricted Shares**

As of December 1, 2010, we had 50,254,472 shares of common stock outstanding, 45,145,000 shares of which constitute restricted securities as defined by rule 144 ( Rule 144 ) under the Securities Act and, as a result, cannot be sold or transferred except in a transaction registered under the Securities Act or pursuant to an exemption from such registration requirements. Except as set forth below, all shares of our common stock sold pursuant to this offering will be freely tradable without restriction or further registration under the Securities Act unless held by one of our affiliates, as that term is defined in Rule 144. Unless otherwise registered under the Securities Act, sales of shares of our common stock by affiliates will be subject to the volume limitations and other restrictions set forth in Rule 144.

**Common Stock and Warrants Issued in Reliance on Section 1145 of the Bankruptcy Code**

We relied on section 1145(a)(1) and (2) of the Bankruptcy Code to exempt from the registration requirements of the Securities Act the offer and sale of a portion of our common stock, as well as the Ten Year Warrants and Five Year Warrants. Section 1145(a)(1) of the Bankruptcy Code exempts the offer and sale of securities under the Plan of Reorganization from registration under Section 5 of the Securities Act and state laws if certain requirements are satisfied. Section 1145(a)(2) of the Bankruptcy Code exempts the offer of securities through and the sale of any securities upon the exercise of any warrant, option, right to subscribe or conversion privilege issued under 1145(a)(1) of the Bankruptcy Code, such as the shares of our common stock issuable upon exercise of the Ten Year Warrants and Five Year Warrants, from registration under Section 5 of the Securities Act and state laws if certain requirements are satisfied. 3,497,520 shares of our common stock issued pursuant to the Plan of Reorganization, the Ten Year Warrants, the Five Year Warrants and the 3,907,774 shares of our common stock issuable upon exercise of such warrants may be resold without registration unless the seller is an underwriter with respect to those securities. Section 1145(b)(1) of the Bankruptcy Code defines an underwriter as any person who:

purchases a claim against, an interest in, or a claim for an administrative expense against the debtor, if that purchase is with a view to distributing any security received in exchange for such a claim or interest;

offers to sell securities offered under the Plan of Reorganization for the holders of those securities;

offers to buy those securities from the holders of the securities, if the offer to buy is (i) with a view to distributing those securities; and (ii) (a) under an agreement made in connection with the Plan of Reorganization, the completion of the Plan of Reorganization, or with the offer or sale of securities under the Plan of Reorganization; or (b) is an affiliate of the issuer.

To the extent a person is deemed to be an underwriter, resales by such person would not be exempted by section 1145 of the Bankruptcy Code from registration under the Securities Act or other applicable law. Those

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persons would, however, be permitted to sell our common stock or other securities without registration if they are able to comply with the provisions of Rule 144, as described further below.

**Rule 144**

As of December 1, 2010, 45,145,000 shares of our outstanding common stock constituted restricted securities under Rule 144. Commencing on April 1, 2011, assuming we remain current in our reporting obligations under the Exchange Act, and commencing on October 1, 2011, if we do not, these shares may also be sold under Rule 144 subject in the case of holders that are affiliates to restrictions on volume and manner of sale.

**Common Stock Issued in the Rights Offering**

Certain holders of claims against Visteon and/or its subsidiaries (the Eligible Holders ) agreed to purchase shares of our common stock in a rights offering pursuant to the Plan of Reorganization and certain commitment agreements. The offer and sale of common stock issued to the Eligible Holders pursuant to the rights offering was exempt from the registration requirements of Section 5 of the Securities Act pursuant to Section 4(2) thereof, and are deemed restricted securities within the meaning of Rule 144 and may not be sold unless registered under the Securities Act or in compliance with an applicable exemption therefrom. As a result, the common stock issued to the Eligible Holders, is not freely tradable.

Pursuant to the Registration Rights Agreement, we are required to cause a shelf registration statement covering the resale of the common stock issued to certain investors in the rights offering to be filed with the SEC no later than fourteen business days after the Effective Date. Shares sold pursuant to such registration statement will be freely tradable, subject to the volume limitations and other restrictions set forth in Rule 144 applicable to common stock held by our affiliates. Pursuant to such requirement, we have filed the registration statement of which this prospectus is a part with the SEC.

**Stock Options and Other Stock Awards**

The Plan of Reorganization contemplates the adoption of a new management incentive plan under which shares of our common stock, or options or other awards to purchase shares of common stock, can be issued to the our directors, management and other employees. Under the Visteon Corporation 2010 Incentive Plan, shares of common stock have been reserved for issuance, and we have awarded 1,666,667 restricted shares of common stock and restricted stock units to certain of our employees and non-employee directors. We have filed a registration statement on Form S-8 covering all of the shares of common stock reserved for issuance under the Visteon Corporation 2010 Incentive Plan, and such shares will be freely tradable in the public market as soon as issued subject to certain limitations applicable to affiliates and any restrictions applicable to the vesting of awards.

## LEGAL PROCEEDINGS

On August 31, 2010, the Bankruptcy Court confirmed the Plan of Reorganization. Mark Taub and Andrew Shirley, holders of pre-confirmation shares of common stock of Visteon, had objected to confirmation of the Plan of Reorganization alleging, among other grounds, that the Plan of Reorganization violated section 1123(a)(4) of the Bankruptcy Code because the members of an ad hoc equity committee had entered into the equity contribution agreement with us and other investors, which entitled them to purchase a limited number of shares of reorganized Visteon and receive reimbursement for certain expenses. The Bankruptcy Court overruled their objection in entering the order confirming the Plan of Reorganization (the Confirmation Order ). On September 8, 2010, Messrs. Taub and Shirley sought a stay pending appeal of the Confirmation Order. The Bankruptcy Court denied their request for a stay on September 9, 2010. On September 10, 2010, Messrs. Taub and Shirley (the Appellants ) filed a notice of appeal of

the Confirmation Order with the United States District Court for the District of Delaware (the District Court ), seeking to overturn the Confirmation Order and/or other equitable relief. The Appellants also moved for a stay pending appeal from the District Court. By oral order given on September 14, 2010, the District Court affirmed the Bankruptcy Court s decision denying a stay pending appeal. The Plan of Reorganization went effective on October 1, 2010.

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Visteon and the Appellants completed briefing on the appeal on October 11, 2010 and the District Court scheduled oral argument on the appeal for November 10, 2010, which was later adjourned to December 13, 2010. While Visteon believes that the appeal lacks merit and the relief requested by the Appellants is barred by the doctrine of equitable mootness, litigation is inherently risky and results are never certain. Thus, on November 22, 2010, Visteon filed a motion with the Bankruptcy Court seeking approval of a settlement with the Appellants pursuant to which the Appellants have agreed, among other things, to withdraw their appeal with prejudice in exchange of payment of $2.25 million from Visteon. The motion is scheduled to be heard by the Bankruptcy Court on December 14, 2010.

The settlement agreement is conditioned upon approval of the Bankruptcy Court, unless the parties mutually agree to be bound by the terms of the settlement agreement absent Bankruptcy Court approval. If the Bankruptcy Court does not approve the settlement or the appeal is not otherwise withdrawn, we intend to vigorously defend the Bankruptcy Court s entry of the Confirmation Order. While we are unable to estimate what impact an adverse ruling would have on its results of operations, financial condition or the value of its securities, the Appellants have requested remedies that include overturning the Confirmation Order, the payment of cash damages of in excess of $50 million, the lowering of the exercise price on certain warrants issued to our old stockholders from $58.80 to $16.49, the sale of approximately 1.8 million shares of new common stock to our old stockholders at $27.69, or other equitable remedies the District Court may determine. In the event the District Court fashions a remedy for the Appellants, such remedy could negatively impact the value of new common stock.

## PLAN OF DISTRIBUTION

We are registering 46,972,866 shares of our common stock for possible sale by the selling stockholders. Unless the context otherwise requires, as used in this prospectus, selling stockholders includes the selling stockholders named in the table above and donees, pledgees, transferees or other successors-in-interest selling shares received from the selling stockholders as a gift, pledge, partnership distribution or other transfer after the date of this prospectus.

The selling stockholders may offer and sell all or a portion of the shares covered by this prospectus from time to time, in one or more or any combination of the following transactions:

- in the over-the-counter market or on any national securities exchange on which our shares are listed or traded, if any;
- in privately negotiated transactions;
- in underwritten transactions;
- in a block trade in which a broker-dealer will attempt to sell the offered shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- through purchases by a broker-dealer as principal and resale by the broker-dealer for its account pursuant to this prospectus;
- in ordinary brokerage transactions and transactions in which the broker solicits purchasers;
- through the writing of options (including put or call options), whether the options are listed on an options exchange or otherwise;
- through loans or pledges of the securities to a broker-dealer or an affiliate thereof;

by entering into transactions with third parties who may (or may cause others to) issue securities convertible or exchangeable into, or the return of which is derived in whole or in part from the value of, our common stock;

a combination of any such methods; or

any other method permitted pursuant to applicable law.

The selling stockholders may sell the shares at prices then prevailing or related to the then current market price or at negotiated prices. The offering price of the shares from time to time will be determined by the selling

stockholders and, at the time of the determination, may be higher or lower than the market price of our common stock on the OTC Bulletin Board or any other exchange or market.

The shares may be sold directly or through broker-dealers acting as principal or agent, or pursuant to a distribution by one or more underwriters on a firm commitment or best-efforts basis. The selling stockholders may also enter into hedging transactions with broker-dealers. In connection with such transactions, broker-dealers of other financial institutions may engage in short sales of our common stock in the course of hedging the positions they assume with the selling stockholders. The selling stockholders may also enter into options or other transactions with broker-dealers or other financial institutions which require the delivery to such broker-dealer or other financial institution of shares offered by this prospectus, which shares such broker-dealer or other financial institution may resell pursuant to this prospectus (as supplemented or amended to reflect such transaction). In connection with an underwritten offering, underwriters or agents may receive compensation in the form of discounts, concessions or commissions from the selling stockholders or from purchasers of the offered shares for whom they may act as agents. In addition, underwriters may sell the shares to or through dealers, and those dealers may receive compensation in the form of discounts, concessions or commissions from the underwriters and/or commissions from the purchasers for whom they may act as agents.

The selling stockholders and any underwriters, dealers or agents participating in a distribution of the shares may be deemed to be underwriters within the meaning of the Securities Act, and any profit on the sale of the shares by the selling stockholders and any commissions received by broker-dealers may be deemed to be underwriting commissions under the Securities Act.

The selling stockholders may agree to indemnify an underwriter, broker-dealer or agent against certain liabilities related to the selling of the common stock, including liabilities arising under the Securities Act. Under the registration rights agreement, we have agreed to indemnify the selling stockholders against certain liabilities related to the sale of the common stock, including certain liabilities arising under the Securities Act. Under the registration rights agreement, we have also agreed to pay the costs, expenses and fees of registering the shares of common stock; however, the selling stockholders will pay any underwriting discounts or commissions relating to the sale of the shares of common stock in any underwritten offering.

The selling stockholders have advised us that they have not entered into any agreements, understandings or arrangements with any underwriters or broker-dealers regarding the sale of its shares. Upon our notification by the selling stockholders that any material arrangement has been entered into with an underwriter or broker-dealer for the sale of shares through a block trade, special offering, exchange distribution, secondary distribution or a purchase by an underwriter or broker-dealer, we will file a supplement to this prospectus, if required, pursuant to Rule 424(b) under the Securities Act, disclosing certain material information, including:

- the name of the selling stockholders;
- the number of shares being offered;
- the terms of the offering;
- the names of the participating underwriters, broker-dealers or agents;
- any discounts, commissions or other compensation paid to underwriters or broker-dealers and any discounts, commissions or concessions allowed or reallowed or paid by any underwriters to dealers;
- the public offering price; and

other material terms of the offering.

In addition, upon being notified by the selling stockholders that a donee, pledgee, transferee, other successor-in-interest intends to sell more than 500 shares, we will, to the extent required, promptly file a supplement to this prospectus to name specifically such person as a selling stockholders.

The selling stockholders are subject to the applicable provisions of the Securities Exchange Act of 1934, as amended (the Exchange Act ), and the rules and regulations under the Exchange Act, including Regulation M. This regulation may limit the timing of purchases and sales of any of the shares of common stock offered in this

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prospectus by the selling stockholders. The anti-manipulation rules under the Exchange Act may apply to sales of shares in the market and to the activities of the selling stockholders and its affiliates. Furthermore, Regulation M may restrict the ability of any person engaged in the distribution of the shares to engage in market-making activities for the particular securities being distributed for a period of up to five business days before the distribution. The restrictions may affect the marketability of the shares and the ability of any person or entity to engage in market-making activities for the shares.

To the extent required, this prospectus may be amended and/or supplemented from time to time to describe a specific plan of distribution. Instead of selling the shares of common stock under this prospectus, the selling stockholders may sell the shares of common stock in compliance with the provisions of Rule 144 under the Securities Act, if available, or pursuant to other available exemptions from the registration requirements of the Securities Act.

This offering will terminate on the date that all shares offered by this prospectus have been sold by the selling stockholders.

## EXPERTS

The consolidated financial statements and management s assessment of the effectiveness of internal control over financial reporting (which is included in Management s Report on Internal Control over Financial Reporting) incorporated in this Prospectus by reference to the Annual Report on Form 10-K for the year ended December 31, 2009, have been so incorporated in reliance on the report, which contains an explanatory paragraph relating to the Company s ability to continue as a going concern, as described in Note 1 to the financial statements, of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

## LEGAL MATTERS

Kirkland & Ellis LLP, Chicago, Illinois, will pass upon the validity of the common stock offered in this offering.

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## PART II INFORMATION NOT REQUIRED IN PROSPECTUS

**Item 13.** ***Other Expenses of Issuance and Distribution.***

The following table shows the costs and expenses payable in connection with the sale and distribution of the securities being registered. All amounts except the SEC registration fee are estimated.

| | |
|---|---|
| Amount of SEC registration fee | $ 209,323 |
| Accounting fees and expenses | 50,000 |
| Legal fees and expenses | 300,000 |
| Printing fees and expenses | 100,000 |
| **Total** | **$ 659,323** |

**Item 14.** ***Indemnification of Directors and Officers.***

Visteon is incorporated under the laws of the State of Delaware. Section 145 ( Section 145 ) of the Delaware General Corporation Law, as the same exists or may hereafter be amended (the DGCL ), provides that a Delaware corporation may indemnify any persons who were, are or are threatened to be made, parties to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of such corporation), by reason of the fact that such person is or was an officer, director, employee or agent of such corporation, or is or was serving at the request of such corporation as a director, officer, employee or agent of another corporation or enterprise. The indemnity may include expenses (including attorneys fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding, provided such person acted in good faith and in a manner he reasonably believed to be in or not opposed to the corporation s best interests and, with respect to any criminal action or proceeding, had no reasonable cause to believe that his conduct was illegal. Section 145(b) of the DGCL provides that a Delaware corporation may indemnify officers and directors in an action by or in the right of the corporation under the same conditions, except that no indemnification is permitted without judicial approval if the officer or director is adjudged to be liable to the corporation. Where an officer, director, employee or agent is successful on the merits or otherwise in the defense of any action referred to above, the corporation must indemnify him against the expenses which such officer or director has actually and reasonably incurred.

Section 145(g) of the DGCL provides that a corporation shall have the power to purchase and maintain insurance on behalf of any person who is or was a director or officer of the corporation against any liability asserted against the person in any such capacity, or arising out of the person s status as such, whether or not the corporation would have the power to indemnify the person against such liability under the provisions of the DGCL.

Article Ninth of Visteon s second amended and restated certificate of incorporation provides that a director of Visteon shall not be personally liable to Visteon or its stockholders for monetary damages for breach of fiduciary duty as a director, except to the extent such exemption from liability or limitation thereof is not permitted under Delaware law. Article Tenth of Visteon s second amended and restated certificate of incorporation and Article VIII of Visteon s amended and restated bylaws provide for indemnification of the officers and directors of Visteon to the fullest extent permitted by the DGCL.

The foregoing is only a general summary of certain aspects of Delaware law and the registrant s organizational documents dealing with indemnification of directors and officers and does not purport to be complete. It is qualified in

its entirety by reference to the applicable provisions of the DGCL and of the registrant s second amended and restated certificate of incorporation and bylaws.

Visteon has obtained directors and officers liability insurance, which insures against liabilities that its directors or officers may incur in such capacities.

**Item 15.** ***Recent Sales of Unregistered Securities.***

On the Effective Date, all existing shares of old common stock were cancelled pursuant to the Plan of Reorganization.

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Pursuant to the Plan of Reorganization, on the Effective Date, Visteon issued (i) 3,520,408 shares of common stock, (ii) 2,355,000 Ten Year Warrants; and (iii) 1,552,774 Five Year Warrants, which, in each case (including shares of common stock issuable upon exercise such warrants), based on the Plan of Reorganization and Confirmation Order entered by the Bankruptcy Court on August 31, 2010, are exempt from registration requirements of the Securities Act, in reliance on Section 1145 of the Bankruptcy Code.

Pursuant to the Plan of Reorganization, on the Effective Date, Visteon issued 45,145,000 shares of common stock in connection with the rights offering provided for in the Plan of Reorganization. Such shares are exempt from registration requirements of the Securities Act in reliance on Section 4(2) of the Securities Act.

**Item 16.** ***Exhibits and Financial Statement Schedules.***

Reference is made to the Exhibit Index filed as part of this Registration Statement.

**Item 17.** ***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 SEC 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.

(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) 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 SEC such indemnification is against public policy as expressed in the Securities 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.

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c) The undersigned registrant hereby undertakes to supply by means of a post-effective amendment all information concerning a transaction, and the company being acquired involved therein, that was not the subject of and included in the registration statement when it became effective.

d) The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b) (1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus 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.

e) The undersigned hereby undertakes to deliver or cause to be delivered with the prospectus, to each person to whom the prospectus is sent or given, the latest annual report, to security holders that is incorporated by reference in the prospectus and furnished pursuant to and meeting the requirements of Rule 14a-3 or Rule 14c-3 under the Securities Exchange Act of 1934; and, where interim financial information required to be presented by Article 3 of Regulation S-X is not set forth in the prospectus, to deliver, or cause to be delivered to each person to whom the prospectus is sent or given, the latest quarterly report that is specifically incorporated by reference in the prospectus to provide such interim financial information.

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**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this Amendment No. 1 to the registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Van Buren Township, State of Michigan on December 3, 2010.

VISTEON CORPORATION

By: /s/ William G. Quigley III

Name: William G. Quigley III

Title: Executive Vice President and Chief Financial Officer

Pursuant to the requirements of the Securities Act of 1933, this Amendment No. 1 to the registration statement has been signed by the following persons in the capacities indicated on December 3, 2010.

| Signature/Name | Position |
|---|---|
| * | Chairman, President and Chief Executive Officer (Principal Executive Officer) |
| Donald J. Stebbins | |
| /s/ William G. Quigley III | Executive Vice President and Chief Financial Officer (Principal Financial Officer) |
| William G. Quigley III | |
| /s/ Michael J. Widgren | Vice President, Corporate Controller and Chief Accounting Officer (Principal Accounting Officer) |
| Michael J. Widgren | |
| * | Director |
| Duncan H. Cocroft | |
| * | Director |
| Philippe Guillemot | |
| * | Director |
| Herbert L. Henkel | |
| * | Director |
| Mark T. Hogan | |
| * | Director |

Jeffrey D. Jones

* Director

Karl J. Krapek

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| Signature/Name | Position |
|---|---|
| * | Director |
| Timothy D. Leuliette | |
| * | Director |
| William E. Redmond, Jr. | |

* The undersigned, by signing his name hereto, does sign and execute this Amendment No. 1 to registration statement on Form S-1 pursuant to the Power of Attorney executed by the above-named officers and directors of Visteon Corporation and filed with the Securities and Exchange Commission.

/s/ William G. Quigley III
William G. Quigley III
*Attorney-in-Fact*

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## Exhibit Index

| Exhibit No. | Description |
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| 2.1 | Fifth Amended Joint Plan of Reorganization, filed August 31, 2010 (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K of Visteon Corporation filed on September 7, 2010 (File No. 001-15827)). |
| 2.2 | Fourth Amended Disclosure Statement, filed June 30, 2010 (incorporated by reference to Exhibit 2.2 to the Current Report on Form 8-K of Visteon Corporation filed on September 7, 2010 (File No. 001-15827)). |
| 3.1 | Second Amended and Restated Certificate of Incorporation of Visteon Corporation (incorporated by reference to Exhibit 3.1 to the Registration Statement on Form 8-A of Visteon Corporation filed on September 30, 2010 (File No. 000-54138)). |
| 3.2 | Second Amended and Restated Bylaws of Visteon Corporation (incorporated by reference to Exhibit 3.2 to the Registration Statement on Form 8-A of Visteon Corporation filed on September 30, 2010 (File No. 000-54138)). |
| 4.1 | Warrant Agreement, dated as of October 1, 2010, by and between Visteon Corporation and Mellon Investor Services LLC (incorporated by reference to Exhibit 10.1 to the Registration Statement on Form 8-A of Visteon Corporation filed on September 30, 2010 (File No. 000-54138)). |
| 4.2 | Warrant Agreement, dated as of October 1, 2010, by and between Visteon Corporation and Mellon Investor Services LLC (incorporated by reference to Exhibit 10.2 to the Registration Statement on Form 8-A of Visteon Corporation filed on September 30, 2010 (File No. 000-54138)). |
| 5.1 | Legal Opinion of Kirkland & Ellis LLP.# |
| 10.1 | Registration Rights Agreement, dated as of October 1, 2010, by and among Visteon Corporation and certain investors listed therein (incorporated by reference to Exhibit 4.3 to the Current Report on Form 8-K of Visteon Corporation filed on October 1, 2010 (File No. 001-15827)). |
| 10.2 | Equity Commitment Agreement, dated as of May 6, 2010, by and among Visteon Corporation, Alden Global Distressed Opportunities Fund, L.P., Allen Arbitrage, L.P., Allen Arbitrage Offshore, Armory Master Fund Ltd., Capital Ventures International, Caspian Capital Partners, L.P., Caspian Select Credit Master Fund, Ltd., Citadel Securities LLC, CQS Convertible and Quantitative Strategies Master Fund Limited, CQS Directional Opportunities Master Fund Limited, Crescent 1 L.P., CRS Fund Ltd., CSS, LLC, Cumber International S.A., Cumberland Benchmarked Partners, L.P., Cumberland Partners, Cyrus Europe Master Fund Ltd., Cyrus Opportunities Master Fund II, Ltd., Cyrus Select Opportunities Master Fund, Ltd., Deutsche Bank Securities Inc. (solely with respect to the Distressed Products Group), Elliott International, L.P., Goldman, Sachs & Co. (solely with respect to the High Yield Distressed Investing Group), Halbis Distressed Opportunities Master Fund Ltd., Kivu Investment Fund Limited, LongView Partners B, L.P., Mariner LDC (Caspian), Mariner LDC (Riva Ridge), Merced Partners II, L.P., Merced Partners Limited Partnership, Monarch Master Funding Ltd., NewFinance Alden SPV, Oak Hill Advisors, L.P., Quintessence Fund L.P., QVT Fund LP, Riva Ridge Master Fund, Ltd., Seneca Capital LP, Silver Point Capital, L.P., SIPI Master Ltd., Solus Alternative Asset Management LP, Spectrum Investment Partners, L.P., Stark Criterion Master Fund Ltd., Stark Master Fund Ltd., The Liverpool Limited Partnership, The Seaport Group LLC Profit Sharing Plan, UBS Securities LLC, Venor Capital Management, Whitebox Combined Partners, L.P., and Whitebox Hedged High Yield Partners, L.P. (incorporated by reference to Exhibit 2.1 to the Quarterly Report on Form 10-Q of Visteon Corporation filed on August 9, 2010 (File No. 001-15827)). |

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| Exhibit No. | Description |
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| 10.3 | First Amendment, dated as of June 13, 2010, to the Equity Commitment Agreement, by and among Visteon Corporation, Alden Global Distressed Opportunities Fund, L.P., Allen Arbitrage, L.P., Allen Arbitrage Offshore, Armory Master Fund Ltd., Capital Ventures International, Caspian Capital Partners, L.P., Caspian Select Credit Master Fund, Ltd., Citadel Securities LLC, CQS Convertible and Quantitative Strategies Master Fund Limited, CQS Directional Opportunities Master Fund Limited, Crescent 1 L.P., CRS Fund Ltd., CSS, LLC, Cumber International S.A., Cumberland Benchmarked Partners, L.P., Cumberland Partners, Cyrus Europe Master Fund Ltd., Cyrus Opportunities Master Fund II, Ltd., Cyrus Select Opportunities Master Fund, Ltd., Deutsche Bank Securities Inc. (solely with respect to the Distressed Products Group), Elliott International, L.P., Goldman, Sachs & Co. (solely with respect to the High Yield Distressed Investing Group), Halbis Distressed Opportunities Master Fund Ltd., Kivu Investment Fund Limited, LongView Partners B, L.P., Mariner LDC (Caspian), Mariner LDC (Riva Ridge), Merced Partners II, L.P., Merced Partners Limited Partnership, Monarch Master Funding Ltd., NewFinance Alden SPV, Oak Hill Advisors, L.P., Quintessence Fund L.P., QVT Fund LP, Riva Ridge Master Fund, Ltd., Seneca Capital LP, Silver Point Capital, L.P., SIPI Master Ltd., Solus Alternative Asset Management LP, Spectrum Investment Partners, L.P., Stark Criterion Master Fund Ltd., Stark Master Fund Ltd., The Liverpool Limited Partnership, The Seaport Group LLC Profit Sharing Plan, UBS Securities LLC, Venor Capital Management, Whitebox Combined Partners, L.P., and Whitebox Hedged High Yield Partners, L.P. (incorporated by reference to Exhibit 2.2 to the Quarterly Report on Form 10-Q of Visteon Corporation filed on August 9, 2010 (File No. 001-15827)). |
| 10.4 | Term Loan Agreement, dated October 1, 2010 by and among Visteon Corporation, certain of its subsidiaries, the lenders party thereto and Morgan Stanley Senior Funding Inc. as the Term Administrative Agent, (incorporated by reference to Exhibit 4.2 to the Current Report on Form 8-K of Visteon Corporation filed on October 1, 2010 (File No. 001-15827)). |
| 10.5 | Revolving Loan Credit Agreement, dated October 1, 2010 by and among Visteon Corporation, certain of its subsidiaries, the lenders party thereto and Morgan Stanley Senior Funding, Inc., as the Revolver Administrative Agent (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K of Visteon Corporation filed on October 1, 2010 (File No. 001-15877)). |
| 10.6 | Employment Agreement, dated October 1, 2010, by and between Visteon Corporation and Donald J. Stebbins (incorporated by reference to Exhibit 10.5 to the current report on Form 8-K of Visteon Corporation filed on October 1, 2010 (File No. 001-15827)). |
| 10.7 | Form of Executive Officer Change in Control Agreement (incorporated by reference to Exhibit 10.6 to the Current Report on Form 8-K of Visteon Corporation filed on October 1, 2010 (File No. 001-15827)). |
| 10.8 | Form of Officer Change In Control Agreement (incorporated by reference to Exhibit 10.7 to the Current Report on Form 8-K of Visteon Corporation filed on October 1, 2010 (File No. 001-15827)). |
| 10.9 | Global Settlement and Release Agreement, dated September 29, 2010, by and among Visteon Corporation, Ford Motor Company and Automotive Components Holdings, LLC (incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K of Visteon Corporation filed on October 1, 2010 (File No. 001-15827)). |
| 10.10 | Visteon Corporation 2010 Incentive Plan (incorporated by reference to Exhibit 10.1 to the Registration Statement on Form S-8 of Visteon Corporation filed on September 30, 2010 (File No. 333-169695)). |
| 10.10.1 | Form of Terms and Conditions of Initial Restricted Stock Grants under the Visteon Corporation 2010 Incentive Plan (incorporated by reference to Exhibit 10.2 to the Registration Statement on Form S-8 of Visteon Corporation filed on September 30, 2010 (File No. 333-169695)). |

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| 10.10.2 | Form of Terms and Conditions of Initial Restricted Stock Unit Grants under the Visteon Corporation 2010 Incentive Plan (incorporated by reference to Exhibit 10.3 to the Registration Statement on Form S-8 of Visteon Corporation filed on September 30, 2010 (File No. 333-169695)). |
| 10.11 | Visteon Corporation Amended and Restated Deferred Compensation Plan for Non-Employee Directors. # |
| 10.12 | Visteon Corporation 2010 Supplemental Executive Retirement Plan. # |
| 10.13 | Visteon Corporation 2010 Pension Parity Plan. # |
| 10.14 | 2010 Visteon Executive Severance Plan. # |

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| Exhibit No. | Description |
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| 21.1 | Subsidiaries of Visteon Corporation (incorporated by reference to Exhibit 21.1 to the Annual Report on Form 10-K of Visteon Corporation for the period ended December 31, 2009 (File No. 001-15827)). |
| 23.1 | Consent of Independent Registered Public Accounting Firm, PricewaterhouseCoopers LLP.* |
| 23.2 | Consent of Kirkland & Ellis LLP (included as part of Exhibit 5.1).# |
| 24.1 | Power of Attorney (included on the signature page).# |

* Filed herewith.

Management compensatory plan or arrangement.

\# Previously filed.