ICU MEDICAL INC/DE
Form 10-Q
August 09, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For the quarterly period ended: June 30, 2016
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, San Clemente, California	92673
(Address of principal executive offices)	(Zip Code)

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

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

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

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

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

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

Class	Outstanding at July 31, 2016
Common	16,132,041

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

ICU MEDICAL, INC. AND SUBSIDIARIES
Form 10-Q
June 30, 2016

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

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

	June 30, 2016 (Unaudited)	December 31, 2015 (1)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 372,895	$ 336,164
Investment securities	27,720	41,233
TOTAL CASH, CASH EQUIVALENTS AND INVESTMENT SECURITIES	400,615	377,397
Accounts receivable, net of allowance for doubtful accounts of $1,114 at June 30, 2016 and $1,101 at December 31, 2015	60,487	57,847
Inventories	49,919	43,632
Prepaid income taxes	12,072	14,366
Prepaid expenses and other current assets	8,092	7,631
Assets held-for-sale	4,209	4,134
TOTAL CURRENT ASSETS	535,394	505,007
PROPERTY AND EQUIPMENT, net	79,704	74,320
GOODWILL	6,245	6,463
INTANGIBLE ASSETS, net	23,183	23,936
DEFERRED INCOME TAXES	18,853	17,099
TOTAL ASSETS	$ 663,379	$ 626,825
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 18,853	$ 13,670
Accrued liabilities	21,759	28,948
TOTAL CURRENT LIABILITIES	40,612	42,618
LONG-TERM LIABILITIES	1,288	1,476
DEFERRED INCOME TAXES	3,764	1,372
INCOME TAX LIABILITY	1,488	1,488
COMMITMENTS AND CONTINGENCIES	—	—
STOCKHOLDERS' EQUITY:		
Convertible preferred stock, $1.00 par value Authorized—500 shares; Issued and outstanding— none	—	—
Common stock, $0.10 par value — Authorized, 80,000 shares; Issued, 16,175 shares at June 30, 2016 and 16,086 shares at December 31, 2015; Outstanding, 16,125 shares at June 30, 2016 and 16,086 shares at December 31, 2015	1,618	1,608
Additional paid-in capital	149,344	145,125
Treasury stock, at cost - 50 shares at June 30, 2016 and 0 shares at December 31, 2015	(4,471)	—
Retained earnings	488,662	453,896
Accumulated other comprehensive loss	(18,926)	(20,758)
TOTAL STOCKHOLDERS' EQUITY	616,227	579,871

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 663,379	$ 626,825

(1) December 31, 2015 balances were derived from audited consolidated financial statements.
The accompanying notes are an integral part of these condensed consolidated financial statements.

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
REVENUE:				
Net sales	$96,712	$83,662	$186,561	$164,985
Other	9	119	15	280
TOTAL REVENUE	96,721	83,781	186,576	165,265
COST OF GOODS SOLD	46,589	40,020	87,211	78,990
GROSS PROFIT	50,132	43,761	99,365	86,275
OPERATING EXPENSES:				
Selling, general and administrative	22,491	20,318	44,466	40,492
Research and development	3,338	3,122	6,651	7,430
Restructuring and strategic transaction	1,533	—	1,533	—
Legal settlement	—	—	—	7,059
TOTAL OPERATING EXPENSES	27,362	23,440	52,650	54,981
INCOME FROM OPERATIONS	22,770	20,321	46,715	31,294
BARGAIN PURCHASE GAIN	1,110	—	1,110	—
OTHER INCOME, net	77	240	224	766
INCOME BEFORE INCOME TAXES	23,957	20,561	48,049	32,060
PROVISION FOR INCOME TAXES	(7,351)	(6,991)	(13,283)	(8,804)
NET INCOME	$16,606	$13,570	$34,766	$23,256
NET INCOME PER SHARE				
Basic	$1.03	$0.86	$2.16	$1.48
Diluted	$0.98	$0.83	$2.05	$1.43
WEIGHTED AVERAGE NUMBER OF SHARES				
Basic	16,091	15,781	16,070	15,738
Diluted	17,000	16,352	16,964	16,302

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

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
NET INCOME	$16,606	$13,570	$34,766	$23,256
Other comprehensive (loss) income, net of tax of $(746) and $508 for the three months ended June 30, 2016 and 2015, respectively and $413 and $(2,212) for the six months ended June 30, 2016 and 2015, respectively.				
Foreign currency translation adjustment	(2,267)	1,868	1,832	(8,223)
TOTAL COMPREHENSIVE INCOME	$14,339	$15,438	$36,598	$15,033

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

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

	Six months ended June 30, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$34,766	$23,256
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,648	9,026
Provision for doubtful accounts	—	53
Provision for warranty and returns	(125)	38
Stock compensation	7,674	5,947
Loss (gain) on disposal of property and equipment	31	(33)
Bond premium amortization	121	1,223
Bargain purchase gain	(1,110)	—
Cash provided by (used in) changes in operating assets and liabilities		
Accounts receivable	(2,527)	(5,529)
Inventories	(5,479)	(2,267)
Prepaid expenses and other assets	(3,784)	(1,375)
Accounts payable	3,752	1,894
Accrued liabilities	(5,985)	(1,027)
Income taxes, including excess tax benefits and deferred income taxes	4,793	(2,031)
Net cash provided by operating activities	41,775	29,175
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(9,112)	(5,005)
Proceeds from sale of asset	1	34
Business acquisitions, net of cash acquired	(2,606)	—
Intangible asset additions	(513)	(440)
Purchases of investment securities	(18,106)	(17,092)
Proceeds from sale of investment securities	31,765	49,555
Net cash provided by investing activities	1,429	27,052
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	7,796	5,797
Proceeds from employee stock purchase plan	1,197	1,041
Purchase of treasury stock	(16,911)	(1,435)
Net cash (used in) provided by financing activities	(7,918)	5,403
Effect of exchange rate changes on cash	1,445	(6,350)
NET INCREASE IN CASH AND CASH EQUIVALENTS	36,731	55,280
CASH AND CASH EQUIVALENTS, beginning of period	336,164	275,812
CASH AND CASH EQUIVALENTS, end of period	$372,895	$331,092
NON-CASH INVESTING ACTIVITIES		
Accounts payable for property and equipment	$1,574	$232

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

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ICU MEDICAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 1: Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S.") and pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) and reflect all adjustments, consisting of only normal recurring adjustments, which are, in the opinion of management, necessary for a fair statement of the consolidated results for the interim periods presented. Results for the interim period are not necessarily indicative of results for the full year. Certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. The condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Annual Report on Form 10-K of ICU Medical, Inc., a Delaware corporation, filed with the SEC for the year ended December 31, 2015.

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

Note 2: New Accounting Pronouncements

Recently Adopted Accounting Standards

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The amendments address several aspects of the accounting for share-based payment award transactions, including income tax accounting consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The amendments in this update are effective for annual periods beginning after December 15, 2016. Early adoption is permitted for an entity in any interim or annual period. An entity that elects early adoption must adopt all of the amendments in the same period and any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. We early adopted this standard during the second quarter ended June 30, 2016. As a result of the adoption, we recognized a $0.8 million and $3.1 million tax benefit as a discrete item during the three and six months ended June 30, 2016, respectively. We elected to retrospectively adopt the presentation of excess tax benefits as an operating activity rather than as a financing activity on the statement of cash flows. Accordingly, the adoption resulted in a $3.1 million and $3.4 million increase in operating cash flows for the periods ended June 30, 2016 and 2015, respectively, and a corresponding $3.1 million and $3.4 million decrease in financing cash flows for the period ended June 30, 2016 and 2015, respectively. We elect to account for forfeitures as they occur.

In September 2015, the FASB issued ASU No. 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments. ASU 2015-16 requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined, including the cumulative effect of the change in provisional amount as if the accounting had been completed at the acquisition date. The adjustments related to previous reporting periods since the acquisition date must be disclosed by income statement line item either on the face of the income statement or in the notes. The amendments are effective prospectively for the fiscal years, and interim reporting periods within those years, beginning on or after December 15, 2015. The adoption of this ASU did not have a material impact on our consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-12, Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide that a Performance Target Could be Achieved after the Requisite Service Period. ASU 2014-12 requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. This update further clarifies that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. The amendments in ASU 2014-12 are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Entities may apply the amendments in ASU 2014-12 either: (a) prospectively to all awards granted or modified after the effective date; or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. We adopted this ASU on a prospective basis. The adoption did not have a material impact on our consolidated financial statements.

Recently Issued Accounting Standards

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This update amends the FASB's guidance on the impairment of financial instruments by requiring timelier recording of credit losses on loans and other financial instruments. The ASU adds an impairment model that is based on expected losses rather than incurred losses. The ASU also amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The amendments in this update will be effective for fiscal years beginning after December 15, 2019. Early adoption is permitted as of the fiscal years beginning after December 15, 2018. The updated guidance requires a modified retrospective adoption. We are currently evaluating the impact of this ASU on the consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The amendments in this update require an entity to recognize a right-of-use asset and lease liability for all leases with terms of more than 12 months. Recognition, measurement and presentation of expenses will depend on classification as finance or operating lease. The amendments also require certain quantitative and qualitative disclosures about leasing arrangements. The amendments in this update will be effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. The updated guidance requires a modified retrospective adoption. We are currently evaluating the impact of this ASU on the consolidated financial statements and related disclosures.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, which amends certain aspects of recognition, measurement, presentation and disclosure of financial instruments. This amendment requires all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under the equity method of accounting or those that result in the consolidation of the investee). The amendments in this update will be effective for fiscal years beginning after December 15, 2017. Early adoption of the amendments is not permitted with the exception of the provision requiring the recognition in other comprehensive income the fair value change from instrument-specific credit risk measured using the fair value option for financial instruments. We are currently evaluating the impact of this ASU on the consolidated financial statements and related disclosures.

In July 2015, the FASB issued ASU No. 2015-11 Inventory (Topic 330): Simplifying the Measurement of Inventory. ASU 2015-11 changes the measurement of inventory from lower of cost or market to lower of cost and net realizable value. The amendments are effective prospectively for the fiscal years, and interim reporting periods within those years, beginning on or after December 15, 2016. We do not anticipate a material impact on our consolidated financial statements from the adoption of this ASU.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 removes inconsistencies and weaknesses in revenue requirements, provides a more robust framework for addressing revenue issues, improves comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets, provides more useful information to users of financial statements through improved disclosure requirements and simplifies the preparation of financial statements by reducing the number of requirements to which an entity must refer. This guidance requires that an entity depict the consideration by applying a five-step analysis in determining when and how revenue is recognized. The new model will require revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration a company expects to receive in exchange for those goods or services. On April 1, 2015, the FASB voted for a one-year deferral of the effective date of the new revenue recognition standard, ASU No. 2014-09. On July 15, 2015, the FASB affirmed these changes, which requires public entities to apply the amendments in ASU 2014-09 for annual reporting beginning after December 15, 2017. Early adoption is permitted beginning after December 31, 2016, the original effective date in ASU 2014-09. Subsequent to the issuance of this ASU, the FASB issued three amendments: ASU No. 2016-08 which clarifies principal versus agent considerations; ASU No. 2016-10 which clarifies guidance related to identifying performance obligations and licensing implementation; and ASU 2016-12 which provides narrow-scope improvements and practical expedients. All of the amendments have the same effective dates mentioned above. We do not anticipate a material impact on our consolidated financial statements from adoption of any of the above ASUs. We expect to adopt the full retrospective transition method when adopting this ASU.

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Note 3: Restructuring Charges

Restructuring Charges

During the year ended December 31, 2015, we incurred restructuring charges related to: (i) an agreement with Dr. Lopez, a member of our Board of Directors and a former employee in our research and development department, pursuant to which we bought out Dr. Lopez's right to employment under his then-existing employment agreement; (ii) the reorganization of our corporate infrastructure, resulting in one-time employee termination benefits and other associated costs; and (iii) a commitment to a plan to sell our Slovakia manufacturing facility. The assets of the manufacturing facility are classified as assets held for sale and are included as a separate line item in our condensed consolidated balance sheet. The sale is expected to be completed during the second half of 2016. The plan to close the facility resulted in a pre-tax restructuring charge for employee termination benefits, government incentive repayments and other associated costs. There was $0.4 million in restructuring charges incurred for the three and six months ended June 30, 2016. Of these charges $0.2 million were related to the closure of the Slovakian manufacturing facility and are included in the below table, and the other $0.2 million was related to a one-time charge unrelated to the events disclosed above.

The following table summarizes the details of changes in our restructuring-related accrual for the period ending June 30, 2016 (in thousands):

	Accrued Balance December 31, 2015	Charges Incurred	Payments	Currency Translation	Other Adjustments	Accrued Balance June 30, 2016
Severance pay and benefits	$ 2,505	$ 25	$ (1,421)	$ 69	$ 172	$ 1,350
Government incentive repayment	1,884	—	(1,769)	57	(172)	—
Employment agreement buyout	1,845	—	(188)	—	—	1,657
Other corporate restructuring	305	168	(251)	—	—	222
	$ 6,539	$ 193	$ (3,629)	$ 126	$ —	$ 3,229

Note 4: Acquisition and Strategic Transaction Expenses

On April 4, 2016, we acquired all of the outstanding shares of Tangent Medical Technologies, Inc. ("Tangent") for $2.6 million in cash. Tangent designs, develops, and commercializes intravenous catheters and associated products for the improvement of infusion therapy. Tangent's products enhance our infusion therapy product offering. As a result of the Tangent acquisition, we immediately recognized a $1.1 million bargain purchase gain that represented the excess of the estimated fair market value of the identifiable tangible and intangible assets acquired, liabilities assumed and deferred tax assets over the total purchase consideration. The bargain purchase was driven by our ability to realize acquired deferred tax assets. The purchase price allocation is subject to further adjustment in order to account for final tax related matters such as filing of final tax return.

We incurred $1.1 million in transaction costs during the three and six months ended June 30, 2016 related to our 2015 acquisition of EXC Holding Corp. and to our second quarter 2016 acquisition of Tangent mentioned above.

Note 5: Legal Settlements

On April 2, 2015, an arbitrator ruled on a breach of contract claim between us and a customer, Hospira, Inc., awarding Hospira $8.2 million Canadian dollars ($6.5 million U.S. dollars). The arbitrator also ruled that we pay 75% of

Hospira's legal fees and expenses, which were $0.7 million U.S. dollars. During the six months ended June 30, 2015, we recorded an estimated total charge of $7.1 million related to the settlement and associated fees, which is presented as a separate line item in our condensed consolidated income statement. These charges were fully paid during the second quarter of 2015.

Note 6: Fair Value Measurement

Our investment securities consist of certificates of deposit, corporate bonds, U.S. Treasury securities, commercial paper and federal tax-exempt state and municipal government debt. All investment securities are considered available-for-sale and are “investment grade”, carried at fair value and there have been no gains or losses on their disposal. As of June 30, 2016, we had $3.5 million of our investment securities as Level 1 assets, which are certificates of deposit and U.S. Treasury securities

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with quoted prices in active markets. As of June 30, 2016, we had $24.2 million of our investment securities as Level 2 assets, which are pre-refunded municipal securities, corporate bonds and commercial paper and are valued using observable market based inputs such as quoted prices, interest rates and yield curves.

There were no transfers between Levels during the first half of 2016.

The following tables provide the assets and liabilities carried at fair value measured on a recurring basis for the periods indicated (in thousands):

	Fair value measurements at June 30, 2016 using			
	Total carrying value	Quoted prices in active markets for identical assets (level 1)	Significant other observable inputs (level 2)	Significant unobservable inputs (level 3)
Available for sale securities	$27,720	$ 3,504	$ 24,216	$ —
	$27,720	$ 3,504	$ 24,216	$ —

	Fair value measurements at December 31, 2015 using			
	Total carrying value	Quoted prices in active markets for identical assets (level 1)	Significant other observable inputs (level 2)	Significant unobservable inputs (level 3)
Available for sale securities	$ 41,233	$ 8,785	$ 32,448	$ —
	$ 41,233	$ 8,785	$ 32,448	$ —

In November 2015, our Board of Directors authorized the closure of our Vrable, Slovakia manufacturing facility. As a result of the closure we reclassified the land and building related to the Slovakia facility as held for sale. Our assets held for sale are included as a separate line item in our condensed consolidated balance sheets. The initial fair value of our assets held for sale was estimated using the income approach and is based on critical estimates, judgments and assumptions derived from: analysis of market conditions; building condition; comparable properties; and rental income and expense (Level 3). Subsequent to the initial valuation, we evaluate the carrying value of our assets held for sale when circumstances indicate the carrying value of those assets may or may not be recoverable; there were no such indicators during the period ended June 30, 2016. The increase in our assets held for sale as of June 30, 2016, as compared to December 31, 2015, was due to currency translation.

The following tables provide the assets and liabilities carried at fair value on a non-recurring basis for the periods indicated (in thousands):

	Fair value measurements at June 30, 2016 using			
	Total carrying value	Quoted prices in active markets for identical assets (level 1)	Significant other observable inputs (level 2)	Significant unobservable inputs (level 3)
Assets held for sale	$ 4,209	$ —	$ —	$ 4,209
	$ 4,209	$ —	$ —	$ 4,209

	Fair value measurements at December 31, 2015 using			
	Total carrying	Quoted prices	Significant	Significant

	value	in active markets for identical assets (level 1)	other observable inputs (level 2)	unobservable inputs (level 3)
Assets held for sale	$ 4,134	$ —	$ —	$ 4,134
	$ 4,134	$ —	$ —	$ 4,134

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Note 7: Investment Securities

Our investment securities consist of certificates of deposit, corporate bonds, U.S. Treasury securities, commercial paper and federal tax-exempt state and municipal government debt. All investment securities are considered available-for-sale and are “investment grade”, carried at fair value, and there have been no gains or losses on their disposal. Unrealized gains and losses on available-for-sale securities, net of tax, are included in accumulated other comprehensive loss in the stockholders' equity section of our condensed consolidated balance sheets. We had no gross unrealized gains or losses on available-for-sale securities at June 30, 2016 or December 31, 2015. The scheduled maturities of the debt securities are between 2016 and 2036 and are all callable within one year.

The investment securities consist of the following at June 30, 2016 and December 31, 2015 (in thousands):

	June 30, 2016	December 31, 2015
Federal and municipal tax-exempt debt securities	$8,143	$ 4,951
Corporate bonds	15,374	25,400
U.S. Treasury securities	3,004	7,537
Commercial paper	699	2,097
Certificates of deposit	500	1,248
Total investment securities	$27,720	$ 41,233

Note 8: Inventories

Inventories consisted of the following (in thousands):

	June 30, 2016	December 31, 2015
Raw material	$27,265	$ 24,681
Work in process	4,258	4,282
Finished goods	18,396	14,669
Total inventories	$49,919	$ 43,632

Note 9: Property and Equipment

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

	June 30, 2016	December 31, 2015
Machinery and equipment	$99,259	$ 96,909
Land, building and building improvements	60,107	56,716
Molds	37,452	36,436