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, 1997 or

| | Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

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

Utah	0-18592	87-0447695
(State or other jurisdiction of incorporation)	(Commission File No.)	(IRS Employer Identification No.)

1600 West Merit Parkway
South Jordan, Utah 84095
(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: (801) 253-1600

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

None

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

Title of Class
Common Stock, No Par Value

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 | |

The aggregate market value of the Common Stock held by non-affiliates of the Registrant, based upon the closing sale price of the Common Stock on the NASDAQ National Market System on March 26, 1998, was approximately $48,114,229 Shares of Common Stock held by each officer and director and by each person who may be deemed to be an affiliate have been excluded.

As of March 26, 1998 the Registrant had 7,402,189 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The Registrant's definitive Proxy Statement relating to the Annual Meeting of Shareholders scheduled for May 27, 1998 is incorporated by reference in Part III of this report.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the 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. |X|

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PART I

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This Form 10-K Report may include "Forward-Looking Statements" within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical fact are "Forward-Looking Statements" for purposes of these provisions, including any projections of earnings, revenues or other financial items, any statements of the plans and objectives of management for future operations, any statements concerning proposed new products or services, any statements regarding future economic conditions or performance, and any statement of assumptions underlying any of the foregoing. In some cases, Forward-Looking Statements can be identified by the use of terminology such as "may," "will," "expects," "plans," "anticipates," "estimates," "potential," or "continue," or the negative thereof or other comparable terminology. Although the Company believes that the expectations reflected in the Forward-Looking Statements contained herein are reasonable, there can be no assurance that such expectations or any of the Forward- Looking Statements will prove to be correct, and actual results could differ materially from those projected or assumed in the Forward-Looking Statements. Future financial condition and results of operations, as well as any Forward- Looking Statements are subject to inherent risks and uncertainties, including market acceptance of the Company's products, potential product recalls, delays in obtaining regulatory approvals, cost increases, price and product competition, availability of labor and material, foreign currency fluctuations, changes in health care markets related to health care reform initiatives and other factors referred to in the Company's press releases and reports filed with the Securities and Exchange Commission. All subsequent Forward-Looking Statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by these cautionary statements.

Item 1. Business.

GENERAL

Merit Medical Systems, Inc. (the "Company") was formed in 1987 by members of its current management for the purpose of producing single use medical products of high quality and superior value primarily for use in diagnosis and treatment of cardiovascular disease. The Company's products are designed to provide physicians and other health care professionals with devices that enable them to perform interventional and diagnostic procedures safely and effectively. Initially, the Company's expertise in innovative product design and its proprietary technology and skills in injection and insert molding enabled it to introduce innovative new products and capture significant market share. The Company subsequently combined its plastics molding capability with the application of proprietary electronics and sensor-based technologies to develop a line of angioplasty inflation products with electronic sensing and display features. These devices are now included in a series of sensor-based products that address a broad range of needs related to diagnostic and interventional catheterization procedures performed in hospitals.

The Company's strategy is to offer a broad line of innovative, disposable products for use in angiography, angioplasty and similar procedures and to increase market acceptance and penetration for both its existing and new products in the U.S. and in international markets. Longer term, the Company's strategy is to extend the application of its plastics molding, electronic and sensor-based technologies to develop products for diagnostic and interventional procedures in additional markets such as neuroradiology, urology and critical care. The Company's sales of products in combination and in custom kits have increased as additions have been made to the Company's product lines. In 1997, approximately 60% of the Company's sales were made directly to U.S. hospitals and approximately 17% of sales were made to custom packagers who also distribute to U.S. hospitals. Approximately 23% of the Company's sales in 1997 were made in international markets.

The Company was organized in July 1987 as a Utah corporation. In July 1994, the Company purchased controlling interest in Sentir, Inc., a California-based manufacturer of silicon sensors. The Company has also organized subsidiaries in Ireland, Germany, France, the United Kingdom, Belgium, and the Netherlands to conduct its international business. On January 31, 1997, the Company purchased the operating assets and product lines of Universal Medical Instrument Corp.("UMI"). The Company also leased from UMI a 32,000 square foot

facility in Saratoga Springs, New York. The Company's principal offices are located in a manufacturing and office facility at 1600 West Merit Parkway, South Jordan, Utah 84095, and its telephone number is (801) 253-1600. See "Item 2. Properties."

PRODUCTS

The Company's products have been designed and developed in response to the needs of customers and patients. These needs have been identified primarily through observation of procedures in the cardiac catheterization laboratories, consultation with the Company's cardiologist advisors and through direct communication with customers. Since 1988, the Company has developed and introduced several product lines, including control syringes ("CCS"and "Smart Tip"), inflation devices ("Intellisystem," "Monarch," and " Basix," including new 25-atmosphere versions of the Intellisystem, Monarch and Basix devices), specialty syringes ("Medallion" and "VacLoc"), high pressure tubing and connectors ("Sherlock") , waste handling and disposal products ("Merit Disposal Depot" and "Backstop"), a disposable blood pressure transducer ("Meritrans"), disposable hemostasis valves ("Passage" and "Access-9"), stopcocks ("Marquis Series") a torque device ("Scout") and contrast management systems ("Miser" and "In-line Contrast Management System"). These products are sold separately and in custom kits consisting primarily of selected combinations of products.

On January 31, 1997, Merit Medical acquired four new product lines and technologies from UMI (needles, guide wires, sheath introducers and catheters). During January 1997, the Company began marketing a new line of angiographic needles through its direct sales organization world wide. The Company's strategy is to combine these newly acquired technologies and product platforms with Merit's existing products and sales force to address larger markets and to expand sales to existing customers.

The Company has not experienced any product liability claims; however, the sale and use of its products entails an inherent risk that product liability claims may be asserted against the Company. The Company maintains product liability insurance in the amount of $5,000,000 per occurrence and in the aggregate, which may not be adequate for expenses or liabilities actually incurred.

Inflation Devices. Inflation devices are specialized syringes used in interventional catheterization procedures to inflate and deflate balloon-tipped catheters. Each of the Company's inflation devices incorporates proprietary design features which contribute to ease of use, including allowing the cardiologist or radiologist to engage or release the syringe plunger with one hand while increasing or decreasing the pressure. Each syringe also provides a clear view of the fluid path that simplifies debubbling and contributes to accurate measurement of balloon pressure. The Company recently received marketing clearance for use of it's inflation devices for a wide range of additional clinical applications such as esophageal dilation, compartmental compression, retinal detachment and discography.

The Company's IntelliSystem inflation device, which was the first such device to incorporate electronic sensing and display features, consists of a disposable 20cc inflation syringe and an integral pressure transducer which connects to an electronic monitor outside of the sterile field. To aid the marketing process and encourage use of the Company's products, the electronic monitor is provided without charge to customers using the IntelliSystem. The IntelliSystem measures, times, records and digitally displays information concerning the pressure, duration and number of each inflation and deflation of the angioplasty balloon. The Company believes that electronic sensing and display of such information is much more accurate and precise than can be obtained from conventional analog gauges. The data is stored and may be displayed, retrieved, graphed and printed.

The Monarch is a disposable inflation device which digitally displays data concerning pressure and duration of inflations and deflations on a small electronic monitor mounted on the barrel of the inflation syringe. The monitor does not offer all of the display, storage or printing capabilities of the IntelliSystem but offers the convenience of portable operation.

The Basix is a disposable inflation device which incorporates a conventional analog pressure gauge, which is mounted on the barrel of the inflation syringe. The Basix more closely resembles devices marketed by the Company's competitors but incorporates the Company's proprietary design features

and benefits. The Company believes that the Basix represents a significant addition to its line of inflation devices that will contribute to sales where cost considerations are important, such as in certain international markets.

In January 1996, the Company began shipping 25-atmosphere versions of the Intellisystem, Monarch and Basix devices in response to market demand for devices capable of performing at higher pressures, such as in procedures involving the placement of stents.

Control Syringes. The Company's disposable control syringes are utilized for one-handed control of the injection of contrast media and other fluids during angiography and angioplasty procedures. The control syringes are molded from polycarbonate material which is stronger than glass and other plastics used in the industry. The Company offers different models and sizes of the control syringes with varying features which respond primarily to physician preferences. These features include different configurations of syringe handles and plungers and connections which allow operation of the syringe in a fixed or rotating position. In 1997, Merit introduced a new line of high quality control syringes with a very sensitive low resistance plunger tip ("Smart Tip").

Custom Kits. Custom kits allow physicians to obtain the medical devices and accessories that they most frequently use during angiography, angioplasty and similar procedures in a convenient, prepackaged and preassembled form. Custom kits also provide cost savings over purchasing single products and reduce the hospital's administrative costs associated with maintaining an inventory of individual, sterile products.

Specialty Syringes. Merit's Medallion syringes, a line of disposable, color coded specialty syringes are used for injection of medications, flushing of manifolds and other general purposes. These syringes are molded of polycarbonate material for added strength and are available in hundreds of size, color and custom printing combinations. The color coding allows a clinician to assign a color for each medication to be dispensed and to differentiate syringes by their contents. The syringes can also be custom printed to the specifications of the user. In response to customer requests, the Company has developed and added additional sizes of its specialty syringes which have applications in dispensing various medication required in a broader range of peripheral procedures. The Company believes that the design, color coding and materials used in its specialty syringes contribute to patient safety and more efficient procedures. The specialty syringes are sold separately but are an important component of the Company's custom kits.

High Pressure Contrast Injection Line and Sherlock Connectors. During angiographic and diagnostic radiology procedures, contrast media must be injected through a catheter into the blood vessel. This is sometimes accomplished by a mechanical injector which can generate pressures up to 1200 psi, and requires tubing that can withstand these pressures. The Company offers high pressure specialty tubing with proprietary Sherlock connectors. The specialty tubing is clear so that the fluid path can be observed and debubbled. Sherlock connectors allow coupling and uncoupling of tubing with injectors, syringes and manifolds without overtightening or breakage. The Company is currently offering specialty tubing which can handle pressures ranging from 500 to 1200 psi. The specialty tubing with Sherlock connectors is an important component of custom kits.

Manifolds. The administration of saline, imaging and contrast fluids and the management of blood pressure monitoring, fluid injection and waste collection in angiography or angioplasty procedures is accomplished through a series of valves on a manifold which controls the flow of various fluids in different directions. The Company has designed its own manifold consisting of two, three, four or five valves. The Company believes its manifold offers greater ease of use, simplified identification of flow direction and leak-free operation under the pressures of manual or mechanical injection of fluids when compared to manifolds sold by competitors. The Merit Manifold is sold separately but is also a key component of the Company's custom kits.

Waste Containment System. Because of heightened awareness of the dangers associated with contacting blood and related waste materials, hospitals have moved toward closed systems whenever possible. To address these concerns, the Company has designed a waste containment bag which connects to a manifold and collects waste materials such as blood and other fluids during angiography, angioplasty or other procedures. The Merit Disposal Depot is self-contained for ease of disposal and reduces risk of contamination.

Disposable Blood Pressure Transducer. The Meritrans is a disposal blood pressure transducer designed to provide reliable and precise blood pressure measurements. The device has a clear transducer housing and a flow-through design for easy flushing and debubbling.

Safety Basin. The BackStop is a fluid disposal basin designed to reduce human exposure to contaminated blood and fluids.

Hemostasis Valves. The Passage and Access-9 hemostasis valves are used in conjunction with the Company's new inflation devices and as a component of the Company's Angioplasty Pack. These valves are made with polycarbonate plastics for clarity and include Sherlock connectors. The Passage and Access-9 valves differ primarily in size.

Torque Device. The Scout is a torque device which is a guidewire steering device with a tapered design and contrasting colors for improved visibility. The Scout is typically included as a component of the Company's Angioplasty Pack.

Stopcock. The Company's Marquis Series Stopcock offers improvements on competitive stopcock devices, including a larger, easy grip handle. The Marquis Series Stopcock is used in connection with Sherlock connectors to provide improved connections during procedures.

Contrast Management Systems. The Miser and the In-line Contrast Management System have been designed to increase catheterization lab efficiencies by reducing or eliminating contrast media waste.

Angiographic Needles. The angiography needle creates the percutaneous access site for all angiography and angioplasty procedures. This site is the point-of-entry for the introducer sheath, guidewires, catheters and any interventional devices. The Merit Majestik Needle helps the physician achieve precision vascular access.

Captiva(TM) Blood Containment Device. The Captiva helps protect health care workers from the potential of blood-borne pathogens by minimizing the escape of blood during an initial needle puncture in vascular access procedures. This new product is complementary to the recently introduced angiographic needles and can be utilized in virtually every diagnostic and interventional case where needle introducers are used.

Fountain(TM) Infusion Catheter. The Fountain catheter delivers specialized clot-dissolving drugs to help remove blood clots (thrombi) in peripheral vessels. This catheter will be used to treat peripheral arterial occlusions, hemodialysis graft occlusions, and deep vein thrombosis. Marketing clearance was recently obtained for U.S. and European markets and sales of the Fountain catheter are expected to begin in the second quarter of 1998.

Tomcat (TM) (PTCA) Guidewire. Tomcat guidewires are used in percutaneous transluminal coronary angioplasty (PTCA) and stent deployment procedures. Guidewires are used to guide and place balloon angioplasty and stent deployment catheters in coronary arteries. This new product complements our existing lines of inflation devices and accessories currently used in balloon angioplasty procedures. This product was designed, developed and will be manufactured in the Company's Ireland facility. Marketing clearance was recently obtained for U.S. and European markets and sales of the Tomcat guidewire are expected to begin in the second quarter of 1998.

MARKETING AND SALES

Market Strategy. The Company's marketing strategy is strongly focused on identifying and introducing highly differentiated products that meet customer needs. The Company has targeted selected hospital market segments in Cardiology and Radiology where its products are used. Suggestions for new products and product improvements may come from engineers, sales persons and other radiologists and other technicians who perform the clinical procedures.

When a product suggestion demonstrates sustainable competitive advantage, meets customer needs, fits strategically and technologically, and has good potential financial return, a "project team" is chartered with individuals

from Marketing, Engineering, Manufacturing and Quality Assurance. This team quickly and efficiently clarify the customer requirements, integrate the design, compile all necessary documentation and testing and prepare the product for market introduction. The Company strongly believes that one of its marketing strengths is its capacity to rapidly conceive, design, develop, and introduce new products.

U.S. Sales. The Company's direct sales force currently consists of a vice president of sales, four regional sales managers and 36 direct sales representatives located in major metropolitan areas throughout the U.S. The Company's sales persons are trained by Company personnel at the Company's facilities, by a senior sales person in their respective territories, at regular national and regional sales meetings by consulting cardiologists and employees of the Company and by observation of procedures in catheterization laboratories.

International Sales. Outside of the U.S., the Company's products are presently sold by 42 independent dealer organizations and 13 direct sales representatives in Germany, France, the United Kingdom, Canada, Belgium, the Netherlands, and Ireland. In 1997, the Company's international sales grew by 15% and accounted for approximately 23% of total sales. The Company has appointed a vice president for international sales and established an international sales office in Paris, France. With the recent and planned additions to its product lines, the Company believes that international sales will continue to increase.

International dealers are required to inventory products and sell directly to customers within defined sales territories. Each of the Company's products must be approved for sale under the laws of the country in which they are sold. International dealers are responsible for compliance with all applicable laws and regulations in their respective countries.

CUSTOMERS

The Company's principal customers in the U.S. are hospitals where the Company's primary contacts are with the catheterization laboratory directors, cardiologists, radiologists and technicians. Hospitals also purchase the Company's products in the U.S. through custom packagers and packers who assemble and combine products in custom kits and packs. The Company's customers outside the U.S. are hospitals and other end users in those countries where a direct sales force has been established and, in other countries are independent dealers in medical products who resell to hospitals and other customers.

Sales to the Company's single largest customer, a foreign dealer, accounted for 5.1% of total sales during the year ended December 31, 1997. In 1997, approximately 60% of the Company sales were made directly to domestic hospitals, 17% to custom packagers and packers and 23% to international markets.

RESEARCH AND DEVELOPMENT

The Company believes that one of its important strengths is its ability to quickly adapt its expertise and experience in injection molding and to apply its electronic and sensor technologies to a perceived need for a new product or product improvement. The Company's development efforts are presently focused on disposable, innovative single-patient or single-use items which can be included in the Company's custom kits or sold separately. Longer-term projects include use of sensor-based technologies in a variety of applications and additional inflation devices with added capacities and features. With the addition of the technologies acquired from UMI there is a new focus on interventional vascular access products, such as needles, guide wires, and catheters . Certain of the Company's executive officers also devote a substantial portion of their time to research and development. Research and development expenses were $4,446,795, $2,533,171, and $2,330,324 in 1997, 1996 and 1995, respectively. There was no customer sponsored research and development. The Company anticipates that such expenses will be at approximately 4.0% to 6.0% of sales for 1998.

MANUFACTURING

Many of the Company's products are manufactured utilizing its proprietary technology and expertise in plastic injection and insert molding. Tooling of molds is contracted with third parties but the Company designs and owns all of its molds. The Company utilizes its experience in injection and insert molding technologies in the manufacture of most of the custom components used in its products.

The electronic monitors and sensors used in the Company's IntelliSystem and Monarch inflation devices are assembled from standard electronic components or purchased from suppliers. In July 1994, the Company acquired a 73% interest in Sentir, Inc. ("Sentir"), a Utah corporation with its principal offices in Santa Clara, California, which is engaged in development and marketing of silicon sensors. Sentir was founded in 1991 by the Company's President and Chief Executive Officer, Fred P. Lampropoulos, to develop micromachining technology and silicon sensors. Sentir is presently providing substantially all of the sensors utilized by the Company in certain of its inflation devices.

The Company's products are manufactured at several facilities, including in South Jordan, Utah, Galway, Ireland, Saratoga Springs, New York and at recently leased expansion facilities in Murray, Utah. See "Item 2. Properties."

COMPETITION

The principal competitive factors in the markets in which the Company's products compete are quality, performance, service and price. The Company believes that its products have achieved rapid market acceptance due, in part, to the quality of materials and workmanship, innovative design and ease of operation, the Company's attention to customer service and product managers who respond promptly to customer inquiries. The Company's products are priced competitively, but not below prices for competing products.

There are several companies which are in the business of designing, manufacturing and marketing devices similar to the Company's products, most of which have substantially greater financial, technical and marketing resources than the Company. There are several companies which compete with the Company in the U.S. market for products and accessories used in angiography and angioplasty procedures. The Company believes, based on available industry data with respect to the number of such procedures performed, that it is one of two market leaders in the U.S. for control syringes (together with NAIMIC USA Corporation, a subsidiary of Pfizer), and is the leader in the U.S. market for inflation devices. The Company also believes that the recent and planned additions to its product lines will enable it to compete more effectively in both U.S. and international markets. There is no assurance, however, that the Company will be able to maintain its existing competitive advantages or to compete successfully in the future.

A substantial majority of the Company's revenues are presently derived from sales of products used in coronary angiography and angioplasty procedures. Other procedures, devices and drugs for the treatment and prevention of coronary artery disease have been developed and are currently being used such as laser angioplasty, vascular stents, atherectomy procedures and drug therapies, the effect of which may be to render certain of the Company's products obsolete or to limit the markets for its products.

PATENTS, PATENT APPLICATIONS, LICENSES, TRADEMARKS AND COPYRIGHTS

The Company considers its proprietary technology to be important in the development and manufacture of its products and seeks to protect its technology through a combination of patents and confidentiality agreements with its employees and others. Two U.S. patents covering the mechanical aspects of the Company's angioplasty inflation devices which relate to the ability of the user to engage or release the syringe plunger while increasing or decreasing pressure were issued in 1991 and two U.S. patents covering digital control aspects of the Company's IntelliSystem inflation device and for displaying, storing and retrieving inflation data were obtained in 1992 and 1993. The Company has obtained other patents covering each of its Monarch and Basix inflation devices and additional features of the IntelliSystem.

Corresponding patent applications covering the claims included in the Company's U.S. patents and patent applications have been initiated in several foreign countries. The Company deems its patents and patents pending to be materially important to its business but does not believe its business is dependent on securing such patents. The Company negotiated a license in 1992 with respect to patents concerning technology utilized in its IntelliSystem and Monarch inflation devices in consideration of a 5.75% ongoing royalty not to exceed $450,000 annually. Royalties paid in each of 1997, 1996 and 1995 were $450,000.

While the Company has obtained U.S. patents and filed additional U.S. and foreign patent applications as discussed above, there can be no assurance that issued patents will provide the Company with any significant competitive advantages or will not be challenged by third parties or that the patents of others will not have an adverse effect on the ability of the Company to conduct its business. The Company could incur substantial costs in seeking enforcement of its patents against infringement or the unauthorized use of its proprietary technology by others or in defending itself against similar claims of others. Insofar as the Company relies on trade secrets and proprietary know-how to maintain its competitive position, there can be no assurance that others may not independently develop similar or superior technologies.

The Company has registered or applied for registration of several trade names or trademarks. See "--Products." The Company also places copyright notices on its instructional and advertising materials and has registered copyrights relating to certain software used in its electronic inflation devices.

REGULATION

The development, testing, packaging, labeling and marketing of medical devices and the manufacturing procedures relating to these devices are regulated under the Federal Food, Drug and Cosmetic Act and additional regulations promulgated thereunder. In general, these statutes and regulations require that manufacturers adhere to certain standards designed to ensure the safety and effectiveness of medical devices. The Company employs a director of regulatory affairs who is responsible for compliance with all applicable FDA regulations. Although the Company believes it is currently in material compliance with all applicable FDA requirements, the Company's business could be adversely affected by failure to comply with all applicable FDA and other government regulations presently existing and promulgated in the future.

The FDA's Good Manufacturing Practices standards regulate the Company's manufacturing processes, require the maintenance of certain records and provide for unscheduled inspections of the Company's facilities. Certain requirements of state, local and foreign governments must also be complied with in the manufacture and marketing of the Company's products.

New medical devices may also be subject to either the Section 510(k) Pre-Market Notification regulations or the Pre-Market Approval ("PMA") regulations of the FDA and similar health authorities in foreign countries. New products in either category require extensive documentation, careful engineering and manufacturing controls to ensure quality. Products needing PMA approval require extensive pre-clinical and clinical testing and clearance by the FDA prior to marketing. Products subject to the Section 510(k) Pre-Market Notification regulations require FDA clearance prior to marketing. To date, the Company's products have required only compliance with the Section 510(k) Pre-Market Notification regulations. The Company's products are subject to foreign regulatory approvals before they may be marketed abroad. The Company has been advised that it may place the "CE" mark on all nonelectronic devices and products sold in Europe. The Company has received ISO 9001 certification for its South Jordan facility.

EMPLOYEES

As of March 23, 1998, the Company employed 989 persons, including 780 in manufacturing, 92 in sales and marketing, 63 in engineering, research and development and 54 in administration.

Many of the Company's present employees are highly skilled. The Company's failure or success will depend, in part, upon its ability to retain such employees. Management is of the opinion that an adequate supply of skilled employees is available. The Company has from time to time experienced rapid

turnover among its entry level assembly workers as well as occasional shortages of such workers, resulting in increased labor costs and administrative expenses related to hiring and training of replacement and new entry-level employees. The Company has confidentiality agreements with its key employees, including each of its executive officers. None of the Company's employees are represented by a union or other collective bargaining group and management of the Company believes that its relations with its employees are good.

FINANCIAL INFORMATION ABOUT FOREIGN AND DOMESTIC OPERATIONS AND EXPORT SALES

For financial information relating to the Company's foreign and domestic sales, transfers between geographic areas net income and indentifiable assets, see note 8 to the Consolidated Financial Statements incorporated by reference in this report

Item 2. Properties.

The Company is the owner of approximately 35 acres of real property situated in the city of South Jordan, Utah, which surrounds the site of its 175,000 square foot principal office and manufacturing facility where it relocated and consolidated operations in November 1994. The Company sold to the developer ten acres of land on which the facility was constructed and entered into a 25-year lease agreement to finance the new facility. Monthly lease payments are approximately $108,000. The Company also holds an option to purchase the facility, exercisable at market value after ten years and, if not exercised, after 25 years. The new facility has been constructed to the Company's specifications and is presently 75% utilized.

The Company is leasing a building of approximately 26,500 square feet in Galway, County Galway, Republic of Ireland as its principal office, and manufacturing facility for European operations. This facility is used as the administrative and distribution headquarters to support the European direct sales force. The facility also houses a research and development team which has developed a new PTCA guidewire and is developing other new products. Beginning in the fourth quarter of 1997, the Company initiated manufacturing operations for several new and existing products at the Galway facility, including custom kits, the BASIX inflation device and the Company's PTCA guidewire. The property has been been improved and equipped on terms favorable to the Company in connection with economic development grant incentives and grants provided by the Irish Government. This lease is for 20 years at approximately $135,000 per year, less a 40% subsidy from the Irish government, available through 1999. The Company also has a purchase option exercisable on terms deemed favorable to the Company through the term of the lease.

The Company has acquired approximately 1 1/2 acres of land and a building of approximately 25,000 square feet in Castlerea, County Roscommon, Republic of Ireland, which is being held for sale.

In February, 1997, the Company entered into an 18-month lease (with options to extend for three additional two-year terms) of a 32,000 square foot facility in Saratoga Springs, New York, from UMI where the product lines acquired from UMI (needles, catheters and guidewires) are currently being manufactured.

In October 1997, the Company began manufacturing operations in a facility of approximately 25,000 square feet of manufacturing space formerly occupied by the Company in Murray, Utah and shifted production of several well-established products to this facility. The additional manufacturing space was obtained to create room at the company's principal manufacturing facility for production of new products. The lease is for a term of five years with monthly lease payments of approximately $13,900.

The Company believes that its facilities are generally adequate for its present level of operations and for anticipated increases in the level of operations.

Item 3. Legal Proceedings.

On February 4, 1994, an action was filed in the Third District Court of Salt Lake County, State of Utah by an individual claiming to be a shareholder of the Company and naming the Company, Fred P. Lampropoulos, President of the Company, and Sentir, a company founded by Mr. Lampropoulos, as defendants. The claims against the Company were subsequently dismissed. The complaint also asserts claims on behalf of the Company (derivative claims) against Mr. Lampropoulos and Sentir, alleging breach of fiduciary duty, and the improper taking of a corporate opportunity in connection with the formation of Sentir. The relief sought in connection with the derivative claims included disgorgement, costs, and attorney's fees. The Company appointed an independent Special Litigation Committee of the Board to determine the Company's course of action on the derivative claims which engaged counsel separate from the Company's usual counsel for purposes of the derivative claims. On November 7, 1995, pursuant to a Motion filed on behalf of the Company's Special Litigation Committee, the Court made a minute entry granting the motion to Dismiss the derivative claims, without prejudice. On November 4, 1996, the Special Litigation Committee delivered its report essentially concluding that the derivative claims were not well founded. Nevertheless, on November 22,1996, the plaintiff refiled only the derivative claims in the Third District court of Salt Lake County, State of Utah and on January 22, 1997, a motion to dismiss was filed on behalf of the Company, seeking to terminate the litigation and asserting that the report of the Special Litigation Committee is entitled to deference under the law.

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

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

PART II

Item 5. Market for Registrant's Common Stock and Related Shareholder Matters.

The "Market Information" included in the Company's Annual Report to Shareholders for the year ended December 31, 1997 furnished herewith to the Commission as Exhibit 13.1 to this report on Form 10-K, is incorporated herein by reference.

Item 6. Selected Financial Data.

The "Selected Financial Data" included in Company's Annual Report to Shareholders for the year ended December 31, 1997 furnished herewith to the Commission as Exhibit 13.1 to this report on Form 10-K, is incorporated herein by reference.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The "Management's Discussion and Analysis of Financial Condition" included in the Company's Annual Report to Shareholders for the year ended December 31, 1997 furnished herewith to the Commission as Exhibit 13.1 to this report on Form 10-K, is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data.

The Company's financial statements and notes included in the Company's Annual Report to Shareholders for the year ended December 31, 1997 furnished herewith to the Commission as Exhibit 13.1 to this report on Form 10-K are incorporated herein by reference.

Item 9. Changes and Disagreements with Accountants on Accounting and Financial Disclosure.

There has been no Form 8-K filed reporting a change of accountants or reporting disagreements on any matter of accounting principle, practice, financial statement disclosure or auditing scope or procedure.

PART III

Item 10, 11, 12 and 13.

These items are incorporated by reference to the Company's definitive Proxy Statement relating to the Annual Meeting of Shareholders scheduled for May 27, 1998. The definitive Proxy Statement will be filed with the Commission not later than 120 days after December 31, 1997, pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

(a) Documents Filed as Part of this Report:

Financial Statements. The following financial statements are incorporated by reference as provided in Item 8 of this report:

-- Independent Auditors' Report

-- Balance Sheets as of December 31, 1997 and 1996

-- Statements of Operations for the Years Ended December 31, 1997, 1996 and 1995

-- Statements of Stockholders' Equity for the Years Ended December 31, 1997, 1996 and 1995

-- Statements of Cash Flows for the Years Ended December 31, 1997, 1996 and 1995

-- Notes to Financial Statements

(b) Reports on Form 8-K:

None.

(C) Exhibits:

The following exhibits required by Item 601 of Regulation S-K are filed herewith or have been filed previously with the Commission as indicated below:

	Description	Exhibit No.
3.1	Articles of Incorporation of the Company, as amended and restated*	[Form 10-Q filed August 14, 1996, Exhibit No. 1]
3.2	Bylaws of the Company*	[Form S-18 filed October 19, 1989, Exhibit No. 2]
4	Specimen Certificate of the Company's Common Stock, no par value*	[Form S-18 filed October 19, 1989, Exhibit No. 10]
10.1	Merit Medical Systems, Inc. Long Term Incentive Plan (as amended and restated) dated March 25, 1996*	[Form 10-Q filed August 14, 1996, Exhibit No. 2]
10.2	Merit Medical Systems, Inc. 401(k) Profit Sharing Plan (as amended effective January 1, 1991*	[Form S-1 filed February 14, 1992, Exhibit No. 8]
10.3	License Agreement, dated April 8, 1992 between the Company and Utah Medical Products, Inc.*	[Form S-1 filed February 14, 1992, Exhibit No. 5]
10.4	Lease Agreement dated as of June 8, 1993 for office and manufacturing facility*	[Form 10-K for year ended December 31, 1994, Exhibit No. 10.5]
10.5	Loan Agreement with Zions First National Bank dated October 10, 1995*	[Form 10-K for year ended December 31, 1995, Exhibit No. 10.5]

Exhibit No.	Description	
10.6	Amendment to Loan Agreement with Zions First National Bank dated October 10, 1997	Filed herewith
13.1	Annual Report to Shareholders for the year ended December 31, 1997. Filed herewith Certain portions of this exhibit are incorporated by reference into this report on Form 10-K; except as so incorporated by reference, the Annual Report to Shareholders is not deemed filed as part of this report on Form 10-K.	
23.1	Consent of Independent Auditors	Filed herewith
27	Financial Data Schedule - Twelve months ended December 31, 1997	Filed herewith
27.1	Financial Data Schedule - Restated nine months ended September 30, 1996	Filed herewith

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* These exhibits are incorporated herein by reference.

(d) Financial Statement Schedules: There are no financial statement schedules required to be filed with this report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 29, 1998.

MERIT MEDICAL SYSTEMS, INC.

By:_____
Fred P. Lampropoulos, President
and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on March 29,1998.

Signature	Capacity in Which Signed
_____ Fred P. Lampropoulos	President, Chief Executive Officer and Director
_____ Kent W. Stanger	Chief Financial Officer, Secretary, Treasurer and Director (Principal financial and accounting officer)
_____ Richard W. Edelman	Director
_____ Rex C. Bean	Director
_____ James J. Ellis	Director
_____ Michael E. Stillabower	Director

LOAN EXTENSION AND MODIFICATION AGREEMENT
(REVOLVING LINE OF CREDIT)

In consideration of the promises contained in this Loan Extension and Modification Agreement (the "Agreement"), MERIT MEDICAL SYSTEMS, INC., a Utah corporation ("Merit Medical"), and ZIONS FIRST NATIONAL BANK, a national association ("Zions Bank"), each referred to as a "Party" and both collectively referred to as the "Parties" to this Agreement, agree as follows:

1. Merit Medical has a revolving line of credit (the "Line of Credit") with Zions Bank in the current maximum principal amount of $8,500,000.00, evidenced and governed by the following documents, among others (collectively the "Loan Documents"):

A. Loan Agreement, dated October 10, 1995 (the "Loan Agreement");
B. Promissory Note, dated October 10, 1995, in the original maximum principal amount of $8,500,000.00 (the "Note");
C. Trust Deed with Assignment of Rents, dated October 10, 1995, and recorded on October 18, 1995, as Entry No. 6192795 in Book 7251 beginning at Page 0903 of the official records of the Salt Lake County Recorder (the "Trust Deed"); and
D. Security Agreement, dated October 10, 1995, whereby Merit Medical granted to Zions Bank a security interest in, among other things, all of its inventory, accounts, general intangibles (including without limitation certain patents described in the Security Agreement), equipment, furnishings and fixtures, all as more particularly described in the Security Agreement (the "Security Agreement").

2. The Line of Credit matured on September 1, 1997, on which date all amounts owing on the Line of Credit became immediately due and payable.

3. Merit Medical failed to pay off the Line of Credit on September 1, 1997, as agreed, and now have requested Zions Bank to extend the maturity of the Line of Credit until October 1, 1998, and to modify the terms of the Line of Credit by: (a) increasing the maximum principal amount of the Line of Credit to $10,500.00; (b) reducing the interest rate by .25%; (c) increasing the maximum amount of raw materials and finished goods used to calculate the limitation on advances under the Line of Credit from $3,000,000.00 to $3,500,000.00; (d) increasing the ratio of total liabilities to tangible net worth from [1.0 to 1.0] to [1.10 to 1.0]; and (e) increasing the minimum working capital requirement from $7,000,000.00 to $9,000,000.00. Zions Bank is willing to do so, subject to the terms and conditions of this Agreement, which include not interrupting or otherwise adversely affecting the priority of Zions Bank's lien and security interests created under and evidenced by the Trust Deed and the Security Agreement.

4. The Parties represent and warrant to each other that, in deciding to enter into this Agreement, they each:

A. made their own due diligence investigation and evaluation;
B. had all of the information they needed;
C. did not rely on any statements, acts or omissions except as expressly set forth in this Agreement;
D. were not acting under any duress, compulsion or undue influence; and
E. were (or had the opportunity to be) advised by independent legal counsel.

5. By this Agreement, the Line of Credit and the Loan Documents are modified as follows:

A. The maturity date of the Line of Credit is extended from September 1, 1997, to October 1, 1998. All amounts owing on the Line of Credit shall become immediately due and payable on October 1, 1998.

B. The maximum principal amount of the Line of Credit is increased from $8,500,000.00 to $10,500,000.00.

C. The interest rates specified in the Note shall be reduced by .25%, or in other words from .25% above the Base Rate (as defined in the Note) to the Base Rate, and from 3.10 above the LIBOR Rate (as defined

in the Note) to 2.85% above the LIBOR Rate.

D. The maximum amount of raw materials and finished goods used to calculate the limitation on advances under the Line of Credit are increased from $3,000,000.00 to $3,500,000.00.

E. Effective beginning with the calendar quarter which ends March 31, 1998, the allowable ratio of total liabilities to tangible net worth is increased from [1.0 to 1.0] to [1.10 to 1.0].

F. The minimum working capital which Merit Medical is required to maintain during the term of the Line of Credit is increased from $7,000,000.00 to $9,000,000.00.

6. Contemporaneous with the execution and delivery of this Agreement, Merit Medical shall execute and deliver to Zions Bank a Supplemental Trust Deed,

in a form acceptable to Zions Bank, whereby the Trust Deed is supplemented to state the increased maximum principal amount of the Line of Credit.

7. Except as expressly modified by this Agreement, all of the terms and conditions of the Line of Credit and the Loan Documents shall remain in full force and effect, and, as modified by this Agreement, the Line of Credit shall continue to be secured as provided in the Loan Documents.

8. Zions Bank has incurred approximately $675.00 in attorney fees and expenses in connection with this Agreement and a Loan Assumption Agreement to be executed and delivered at the same time as this Agreement, which amount (together with any additional attorney fees and expenses incurred by Zions Bank) shall be paid by Merit Medical contemporaneous with the execution of this Agreement. Additionally, contemporaneous with the execution of this Agreement, Merit Medical shall pay to Zions Bank a loan modification and extension fee of $26,250.00.

9. Except for express contractual obligations of Zions Bank, Merit Medical forever releases Zions Bank and all of its parent, subsidiary and affiliated corporations and entities, past, present and future, and each of them, as well as their respective partners, directors, officers, agents, servants, employees and attorneys, past, present and future, and each of them, from any and all claims, demands, damages, losses, liabilities and causes of action, of whatever kind or nature, whether known or unknown, whether suspected or unsuspected, and whether related, directly or indirectly, or wholly unrelated to the subject matter of this Agreement.

10. ARBITRATION DISCLOSURES:

A. ARBITRATION IS FINAL AND BINDING ON THE PARTIES AND SUBJECT TO ONLY VERY LIMITED REVIEW BY A COURT.

B. IN ARBITRATION THE PARTIES ARE WAIVING THEIR RIGHT TO LITIGATE IN COURT, INCLUDING THEIR RIGHT TO A JURY TRIAL.

C. DISCOVERY IN ARBITRATION IS MORE LIMITED THAN DISCOVERY IN COURT.

D. ARBITRATORS ARE NOT REQUIRED TO INCLUDE FACTUAL FINDINGS OR LEGAL REASONING IN THEIR AWARDS. THE RIGHT TO APPEAL OR SEEK MODIFICATION OF ARBITRATORS' RULINGS IS VERY LIMITED.

E. A PANEL OF ARBITRATORS MIGHT INCLUDE AN ARBITRATOR WHO IS OR WAS AFFILIATED WITH THE BANKING INDUSTRY.

F. IF YOU HAVE QUESTIONS ABOUT ARBITRATION, CONSULT YOUR ATTORNEY OR THE AMERICAN ARBITRATION ASSOCIATION.

ARBITRATION AGREEMENT

G. Any claim or controversy ("Dispute") between or among the Parties, including but not limited to Disputes arising out of or relating to the Line of Credit, the Loan Documents, this Agreement, or any agreement, document, obligation or transaction contemplated by this Agreement, this paragraph 10 (the "Arbitration Agreement"), or any related agreements or instruments relating hereto or delivered in connection herewith (the "Related Documents"), and including but not limited to a Dispute based on or arising from an alleged tort, shall at the request of any Party be resolved by binding arbitration in accordance with the applicable arbitration rules of the American Arbitration Association ("the Administrator"). The provisions of this Arbitration Agreement shall survive any termination, amendment, or expiration of this Agreement, the Loan Documents or the Related Documents.

H. The arbitration proceedings shall be conducted in Salt Lake City, Utah, at a place to be determined by the Administrator. The Administrator and the arbitrator(s) shall have the authority to the extent practicable to take any action to require the arbitration proceeding to be completed and the arbitrator(s)' award issued within one-hundred-fifty (150) days of the filing of the Dispute with the Administrator. The arbitrator(s) shall have the authority to impose sanctions on any Party that fails to comply with time periods imposed by the Administrator or the arbitrator(s), including the sanction of summarily dismissing any Dispute or defense with prejudice. The arbitrator(s) shall have the authority to resolve any Dispute regarding the terms of this Agreement, this Arbitration Agreement, the Loan Documents or the Related Documents, including any claim or controversy regarding the arbitrability of any Dispute. All limitations periods applicable to any Dispute or defense, whether by statute or agreement, shall apply to any arbitration proceeding hereunder and the arbitrator(s) shall have the authority to decide whether any Dispute or defense is barred by a limitations period and, if so, to summarily dismiss any Dispute or defense on that basis. The doctrines of compulsory counterclaim, res judicata, and collateral estoppel shall apply to any arbitration proceeding hereunder so that a Party must state as a

counterclaim in the arbitration proceeding any claim or controversy which arises out of the transaction or occurrence that is the subject matter of the Dispute. The arbitrator(s) may in the arbitrator(s)' discretion and at the request of any Party: (1) consolidate in a single arbitration proceeding any other claim or controversy involving another Party that is substantially related to the Dispute where that other Party is bound by an arbitration clause with the Lender, such as borrowers, guarantors, sureties, and owners of collateral; (2) consolidate in a single arbitration proceeding any other claim or controversy that is substantially similar to the Dispute; and (3) administer multiple arbitration claims or controversies as class actions in accordance with the provisions of Rule 23 of the Federal Rules of Civil Procedure.

I. The arbitrator(s) shall be selected in accordance with the rules of the Administrator from panels maintained by the Administrator. A single arbitrator shall be knowledgeable in the subject matter of the Dispute. Where three arbitrators conduct an arbitration proceeding, the Dispute shall be decided by a majority vote of the three arbitrators, at least one of whom must be knowledgeable in the subject matter of the Dispute and at least one of whom must be a practicing attorney. The arbitrator(s) shall award recovery of all costs and fees (including attorneys' fees and costs, arbitration administration fees and costs, and arbitrator(s)' fees). The arbitrator(s), either during the pendency of the arbitration proceeding or as part of the arbitration award, also may grant provisional or ancillary remedies including but not limited to injunctive relief, foreclosure, sequestration, attachment, replevin, garnishment, or the appointment of a receiver.

J. Judgment upon an arbitration award may be entered in any court having jurisdiction, subject to the following limitation: the arbitration award is binding upon the parties only if the amount does not exceed four million dollars ($4,000,000.00); if the award exceeds that limit, any Party may demand the right to a court trial. Such a demand must be filed with the Administrator within thirty (30) days following the date of the arbitration award; if such a demand is not made within that time period, the amount of the arbitration award shall be binding. The computation of the total amount of an arbitration award shall include amounts awarded for attorneys' fees and costs, arbitration administration fees and costs, and arbitrator(s)' fees.

K. No provision of this Arbitration Agreement, nor the exercise of any rights hereunder, shall limit the right of any Party to: (1) judicially or non-judicially foreclose against any real or personal property collateral or other security; (2) exercise self-help remedies, including but not limited to repossession and setoff rights; or (3) obtain from a court having jurisdiction thereover any provisional or ancillary remedies including but not limited to injunctive relief, foreclosure, sequestration, attachment, replevin, garnishment, or the appointment of a receiver. Such rights can be exercised at any time, before initiation of or during an arbitration proceeding, except to the extent such action is contrary to the arbitration award. The exercise of such rights shall not constitute a waiver of the right to submit any Dispute to arbitration, and any claim or controversy related to the exercise of such rights shall be a Dispute to be resolved under the provisions of this Arbitration Agreement.

L. Notwithstanding the applicability of any other law to this Agreement, the Loan Documents, the Arbitration Agreement, or the Related Documents between or among the Parties, the Federal Arbitration Act, 9 U.S.C. ss. 1 et seq., shall apply to the construction and interpretation of this Arbitration Agreement.

11. This Agreement and the Loan Documents, as modified by this Agreement, constitute the entire agreement between the Parties with respect to the Line of Credit, and may not be altered or amended except by written agreement signed by both of the Parties. PURSUANT TO UTAH CODE SECTION 25-5-4, MERIT MEDICAL IS NOTIFIED THAT THIS AGREEMENT AND THE LOAN DOCUMENTS, AS MODIFIED BY THIS AGREEMENT, ARE A FINAL EXPRESSION OF THE AGREEMENTS BETWEEN THE PARTIES, AND MAY NOT BE CONTRADICTED BY EVIDENCE OF ANY ALLEGED ORAL AGREEMENT.

12. This Agreement is made pursuant to and shall be construed in accordance with the laws of the State of Utah.

DATED: 10 October , 1997.

MERIT MEDICAL SYSTEMS, INC.

By: /s/ Kent Stanger

Title: CFO, Secretary

ZIONS FIRST NATIONAL BANK

By: /s/Grant P.

Title: Vice President

MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES

Selected Financial Data

	Year Ended December 31,				
	1997	1996	1995	1994	1993
Operating Data:					
Sales	$ 60,579,011	$ 50,455,766	$ 42,587,284	$ 33,324,245	$ 25,431,180
Cost of sales	37,766,116	29,319,617	24,987,998	18,999,015	13,653,379
Gross profit	22,812,895	21,136,149	17,599,286	14,325,230	11,777,801
Selling, general, and administrative expenses	15,726,651	14,311,049	12,808,805	10,232,215	7,836,018
Research and development expenses	4,446,795	2,533,171	2,330,324	2,069,882	1,306,782
Income from operations	2,639,449	4,291,929	2,460,157	2,023,133	2,635,001
Other income (expense)	863,933	(661,777)	(459,462)	(29,868)	4,860
Income before income tax expense	1,775,516	3,630,152	2,000,695	1,993,265	2,639,861
Income tax expense	944,981	1,277,431	700,418	775,453	799,650
Minority interest in (income) loss of subsidiary	(33,003)	(190,113)	(79,040)	33,035	
Net income	797,532	2,162,608	1,221,237	1,250,847	1,840,211
Net income per share	$ .11	$ .31	$ .18	$ .19	$ .28
Weighted average shares outstanding	7,369,668	7,051,911	6,851,164	6,678,041	6,679,758
Balance Sheet Data:					
Working capital	$ 14,737,971	$ 12,761,211	$ 9,518,971	$ 9,032,899	$ 10,226,533
Total assets	45,269,678	41,718,553	34,503,858	27,024,267	20,479,384
Long-term debt	3,913,686	4,822,126	1,778,953	827,592	841,921
Stockholders' equity	$ 25,802,149	$ 22,487,123	$ 19,264,525	$ 17,537,029	$ 15,705,152

MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES

Management's Discussion & Analysis

OVERVIEW

Since its inception in 1987, Merit Medical has made significant progress toward accomplishing Its business plan objectives, including becoming a world leader for accessories in the cardiology and radiology markets; establishing a quality direct sales force in the United States and in many important international markets; and developing world-class facilities with manufacturing, quality and regulatory capabilities supported by state-of-the-art accounting, data and communications systems.

There have been many challenges in accomplishing Merit's business objectives, such as major changes and reforms in the health care industry, particularly in the United States. The Company has experienced increased product and price competition in its markets. The Company also has been required to manage rapid growth with limited capital.

Near the end of 1996 Merit's management evaluated the Company's market position in diagnostic and therapeutic accessory products and determined that bold new initiatives would be required to expand the Company's technology bases and product lines. This strategy would focus on new product development to complement existing product lines, resulting in growth in revenues, margins and profitability.

Merit's growth strategy resulted in expansion of its marketing department in 1997, followed by increased research and development expenditures to design, develop and deliver new, proprietary niche products. These new products are being marketed through the Company's distribution system to existing and new customers.

Merit's product development strategy has focused on vascular access markets with product families such as angiographic needles, introducers, guide wires and catheters. To accomplish this expansion, the Company has made long-term investments, increasing its marketing and research and development capabilities in Salt Lake City, Utah, California, New York and Ireland. In January, 1997, Merit acquired a small, medical device company in New York which offered products in the vascular access arena. The acquired technology has led to the introduction of a line of angiographic needles, a thrombolytic catheter and a specialty guide wire, with other new, proprietary products to follow.

The Company's facility in Ireland has developed and has begun to manufacture a significant new product-a PTCA (balloon angioplasty) guide wire. The Sentir Division in California has expanded its marketing of high-quality sensors to new markets such as the defense and automotive industries. These initiatives have required subsequent expenditures, resulting in lower earnings in 1997; however, management believes the Company is now well positioned for

growth and expansion of products, markets and profits.

MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES

Management's Discussion & Analysis

RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, certain operational data as a percent of sales:

	1997	1996	1995
Sales	100.0%	100.0%	100.0%
Gross profit	37.7	41.9	41.3
Selling, general and administrative	26.0	28.4	30.1
Research and development	7.3	5.0	5.5
Income from operations	4.4	8.5	5.8
Income before income tax expense	2.9	7.2	4.7
Net income	1.3	4.3	2.9

Sales increased by $10,123,245, or 20.1%, in 1997 compared to an increase of $7,868,482, or 18.5%, in 1996 and an increase of $9,263, 039, or 27.8%, in 1995. Sales growth from 1995 through 1997 was favorably affected by the introduction of new products and increased sales of existing products sold separately and packaged in custom kits, and increased penetration of the market by Merit's inflation devices. International sales in 1997 were approximately $13,722,000, or 23%, compared to $11,900,000, or 24%, in 1996 and $8,319,000, or 20%, in 1995. These increases were primarily a result of the ongoing transition to a direct sales force in Europe, as well as greater acceptance of the Company's products in other international markets. Direct sales in France, Germany, U.K., Belgium, Holland and Canada were $6,615,697, $5,350,786 and $1,882,648 in 1997, 1996 and 1995, respectively.

Gross profit as a percent of sales was 37,7%, 41.9% and 41.3% in 1997, 1996 and 1995, respectively. The decrease in gross profit in 1997 from 1996 was due to several factors, including increased sales of lower-margin custom kits; price competition, especially in European markets; a strong U.S. dollar affecting the currency translation of the Company's European sales; and domestic wage increases in response to competition for direct-labor employees. Gross margins were also affected by start-up and transition costs in the Company's newly organized Vascular Access Division relating to acquisition of assets from UMI. Margins improved in 1996 compared to 1995 through increased production volumes, automation and efficiencies in the new facility as well as the conversion to a direct international sales force.

Selling, general and administrative expenses increased $1,415,602, or 9.9%, in 1997 over 1996 and $1,502,244, or 11.7% in 1996 compared to 1995. These additional expenditures were related principally to the costs of training and supporting the Company's growing sales force in domestic and international markets. Although total selling, general and administrative expenses have increased during the periods, these expenses as a percent of sales declined to 26.0% in 1997 compared to 28.4% in 1996 and 30.1% in 1995. These reductions have been accomplished-despite substantial expenditures related to starting up the Company's European operations-in part through a Company-wide

focus on achieving greater productivity. In addition, increased sales have permitted the Company to achieve economies of scale through the spread of fixed costs over a greater number of units.

Research and development expenditures for 1997 were $4,446,795, an increase of 76% over $2,533,171 in 1996. Research and development costs in 1996 grew by only 9% from 1995, which as a percent of sales was 7.3%, 5.0% and 5.5% for 1997, 1996 and 1995, respectively. This major increase is related to new product development and reflects management's decision to expand into new markets for the future growth of the Company.

Net income from operations in 1997 decreased to $2,639,449, or 38.5%, compared to $4,291,929 in 1996, an increase of 74.5% from $2,460,157 in 1995. The income tax provision for 1997 was $944,981, an effective rate of 53.2%, compared to $1,277,431, or 35.2%, in 1996 and $700,418, or 35.0%, in 1995. The Company's consolidated effective tax rate in 1997 was higher principally because the tax benefits of losses associated with the start-up of international operations were limited to Ireland's manufacturing tax rate of 10%. The effective tax rate is expected to improve significantly as the Ireland facility becomes profitable and the 10% tax rate becomes a benefit.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 1997 the Company's working capital was $14,737,971, representing a current ratio of 2.2 to 1. During 1997 the Company increased its secured bank line of credit to $10.5 million. The Company had $4,624,727 outstanding under its line of credit at December 31, 1997. Merit has financed leasehold improvements and equipment acquisitions through secured notes payable and capital lease arrangements with an outstanding balance of $5,716,618 at December 31, 1997. For the year ended December 31, 1997 the Company generated cash from operations in the amount of $1,719,508.

Historically, the Company has incurred significant expenses in connection with product development and introduction of new products. This was particularly true in 1997 with regard to new product development and the start-up of European operations. Substantial capital has also been required to finance growth in inventories and receivables. The Company's principal source of funding for these and other expenses has been the cash generated from operations, secured loans on equipment, bank lines of credit and sales equity. The Company believes that its present sources of liquidity and capital are adequate for its current operations.

MARKET RISK DISCLOSURES

The Company does not engage in significant derivative financial instruments. The Company does experience risk associated with foreign currency fluctuations, and interest rate risk associated with its variable rate debt; however, such risks have not been material to the Company and, accordingly, the Company has not deemed it necessary to enter into agreements to hedge such risks. The Company may enter into such agreements in the event that such risks become material in the future.

MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

DECEMBER 31, 1997 AND 1996

ASSETS	1997	1996
CURRENT ASSETS:		
Cash and cash equivalents	$ 976,692	$ 1,262,950
Trade receivables - net of allowance for uncollectible accounts: 1997 - $175,114; 1996 - $75,324	9,599,443	7,379,079
Employee and related party receivables	288,812	327,425
Irish Development Agency grant receivable	747,888	416,891
Inventories	14,535,440	13,852,360
Prepaid expenses and other assets	538,259	518,823
Deferred income tax assets	782,435	729,060
Total current assets	27,468,969	24,486,588
PROPERTY AND EQUIPMENT:		
Land	1,101,544	1,107,351
Building	932,448	1,043,804
Automobiles	112,633	144,535
Manufacturing equipment	10,909,529	8,656,145
Furniture and fixtures	4,817,738	3,816,402
Leasehold improvements	4,483,071	2,673,897
Construction-in-progress	2,747,414	5,193,993
Total	25,104,377	22,636,127
Less accumulated depreciation and amortization	(9,648,746)	(7,605,728)
Property and equipment - net	15,455,631	15,030,399
OTHER ASSETS:		
Intangible assets - net of accumulated amortization: 1997 - $821,641; 1996 - $636,059	2,024,050	1,839,532
Cost in excess of the fair value of assets acquired - net of accumulated amortization: 1997 - $15,015	167,273	
Prepaid royalty - net of accumulated amortization: 1997 - $492,857; 1996 - $407,143	107,143	192,857
Deposits	46,612	169,177
Total other assets	2,345,078	2,201,566
TOTAL	$ 45,269,678	$ 41,718,553

(Continued)

MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

DECEMBER 31, 1997 AND 1996

LIABILITIES AND STOCKHOLDERS' EQUITY	1997	1996
CURRENT LIABILITIES:		
Line of credit	$ 4,624,727	$ 4,533,873
Current portion of long-term debt	1,802,932	1,388,576
Trade payables	3,438,349	3,437,477
Accrued expenses	2,414,050	2,241,638
Advances from employees	81,245	107,907
Income taxes payable	369,695	15,906
Total current liabilities	12,730,998	11,725,377
DEFERRED INCOME TAX LIABILITIES	883,002	852,578
LONG-TERM DEBT	3,913,686	4,822,126
DEFERRED CREDITS	1,543,151	1,467,660
Total liabilities	19,070,837	18,867,741
MINORITY INTEREST IN SUBSIDIARY	396,692	363,689
COMMITMENTS AND CONTINGENCIES (Notes 6, 10, and 11)		
Stockholders' EQUITY:		
Preferred stock - 5,000,000 shares authorized as of December 31, 1997, no shares issued		
Common stock -- no par value; 20,000,000 and 10,000,000 shares authorized, respectively; 7,395,091 and 6,942,290 shares issued at December 31, 1997 and 1996, respectively	17,178,971	14,184,975
Foreign currency translation adjustment	(490,591)	(14,089)
Retained earnings	9,113,769	8,316,237
Total stockholders' equity	25,802,149	22,487,123
TOTAL	$ 45,269,678	$ 41,718,553

See notes to consolidated financial statements. (Concluded)

MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

FOR THE YEARS ENDED DECEMBER 31, 1997, 1996, AND 1995

	1997	1996	1995
SALES	$ 60,579,011	$ 50,455,766	$ 42,587,284
COST OF SALES	37,766,116	29,319,617	24,987,998
GROSS PROFIT	22,812,895	21,136,149	17,599,286
EXPENSES:			
Selling, general, and administrative	15,726,651	14,311,049	12,808,805
Research and development	4,446,795	2,533,171	2,330,324
Total	20,173,446	16,844,220	15,139,129
INCOME FROM OPERATIONS	2,639,449	4,291,929	2,460,157
OTHER INCOME (EXPENSE):			
Interest income	28,223	23,377	15,185
Interest expense	(854,859)	(707,878)	(428,038)
Miscellaneous income (expense)	(37,297)	22,724	(46,609)
Other expense - net	(863,933)	(661,777)	(459,462)
INCOME BEFORE INCOME TAX EXPENSE	1,775,516	3,630,152	2,000,695
INCOME TAX EXPENSE	(944,981)	(1,277,431)	(700,418)
MINORITY INTEREST IN INCOME OF SUBSIDIARY	(33,003)	(190,113)	(79,040)
NET INCOME	$ 797,532	$ 2,162,608	$ 1,221,237
EARNINGS PER COMMON SHARE - Basic and diluted	$ .11	$ .31	$ .18
AVERAGE COMMON SHARES - Basic and diluted	$ 7,369,668	$ 7,051,911	$ 6,851,164

See notes to consolidated financial statements.

MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES

Consolidated Statements of stockholders' Equity

FOR THE YEARS ENDED DECEMBER 31, 1997, 1996, AND 1995

	Common Stock		Foreign Currency Translation	Retained
	Shares	Amount	Adjustment	Earnings
BALANCE, JANUARY 1, 1995	6,690,829	$ 12,606,299	$ (1,662)	$ 4,932,392
Net income				1,221,237
Issuance of common stock for cash	15,949	99,106		
Options and warrants exercised for cash	79,461	370,339		
Options to purchase 1,939 shares surrendered in exchange for the recording of payroll tax liabilities		(9,453)		
Foreign currency translation adjustment			24,293	
Tax benefit attributable to appreciation of common stock options exercised		21,974		
BALANCE, DECEMBER 31, 1995	6,786,239	13,088,265	22,631	6,153,629
Net income				2,162,608
Issuance of common stock for cash	39,996	309,370		
Options and warrants exercised for cash	104,117	643,028		
Issuance of common stock under Employee Stock Purchase Plan	11,938	78,633		
Foreign currency translation adjustment			(36,720)	
Tax benefit attributable to appreciation of common stock options exercised		65,679		
BALANCE, DECEMBER 31, 1996	6,942,290	14,184,975	(14,089)	8,316,237
Net income				797,532
Issuance of common stock for cash	35,582	273,202		
Options and warrants exercised for cash	227,200	1,316,812		
Issuance of common stock under Employee Stock Purchase Plan	42,056	245,129		
Foreign currency translation adjustment			(476,502)	
Tax benefit attributable to appreciation of common stock options exercised		222,887		
Stock issued in connection with UMI acquisition	152,424	975,000		
Shares surrendered in exchange for the recording of payroll tax liabilities	(861)	(7,534)		
Shares surrendered in exchange for the exercise of stock options	(3,600)	(31,500)		
BALANCE, DECEMBER 31, 1997	7,395,091	$ 17,178,971	$ (490,591)	$ 9,113,769

See notes to consolidated financial statements.

MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

FOR THE YEARS ENDED DECEMBER 31, 1997, 1996, AND 1995

	1997	1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 797,532	$ 2,162,608	$ 1,221,237
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	2,796,425	2,497,850	1,718,901
Bad debt expense	99,790	17,708	33,509
Losses on sales and abandonment of property and equipment	11,245	6,867	61,138
Amortization of deferred credits	(91,155)	(73,619)	(55,761)
Deferred income taxes	(22,951)	162,475	(200,768)
Tax benefit attributable to appreciation of common stock options exercised	222,887	65,679	21,974
Minority interest in income of subsidiary	33,003	190,113	79,040
Changes in operating assets and liabilities, net of effects from purchase of UMI:			
Trade receivables	(2,320,154)	(668,827)	(1,654,077)
Employee and related party receivables	38,613	35,841	(151,802)
Irish Development Agency grant receivable	(330,997)	142,637	(194,440)
Income tax refund receivable			133,048
Inventories	(79,236)	(1,695,565)	(3,786,342)
Prepaid expenses and other assets	(19,436)	(115,409)	(219,725)
Deposits and other	122,565	(122,193)	61,568
Trade payables	872	381,188	547,550
Accrued expenses	133,378	526,563	413,470
Advances from employees	(26,662)	55,044	6,196
Income taxes payable	353,789	(113,879)	129,785
Total adjustments	921,976	1,292,473	(3,056,736)
Net cash provided by (used in) operating activities	1,719,508	3,455,081	(1,835,499)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Collections on construction advances receivable			2,184,630
Capital expenditures for:			
Property and equipment	(1,046,890)	(2,736,477)	(2,497,060)
Intangible assets	(521,270)	(486,414)	(410,982)
UMI acquisition	(70,486)		
Proceeds from the sale of property and equipment	22,645	41,156	
Net cash used in investing activities	(1,616,001)	(3,181,735)	(723,412)

(Continued)

MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

FOR THE YEARS ENDED DECEMBER 31, 1997, 1996, AND 1995

	1997	1996	1995
CASH FLOWS FROM FINANCING ACTIVITIES:			
Borrowings under line of credit	$ 22,954,925	$ 22,551,386	$ 25,390,713
Proceeds from:			
Issuance of common stock	1,835,143	1,031,031	469,445
Long-term debt		2,200,000	
Principal payments on:			
Line of credit	(22,864,071)	(23,889,052)	(22,982,819)
Long-term debt	(1,764,343)	(1,068,415)	(631,887)
Deferred credits	(74,917)	(69,467)	(54,227)
Proceeds included in deferred credits			448,398
Proceeds from sale of subsidiary stock to minority shareholders			10,000
Net cash provided by financing activities	86,737	755,483	2,649,623
EFFECT OF EXCHANGE RATES ON CASH	(476,502)	(36,720)	24,293
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(286,258)	992,109	115,005
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,262,950	270,841	155,836
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 976,692	$ 1,262,950	$ 270,841
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION - Cash paid during the year for interest (including capitalized interest of $109,701, $177,133, and $152,469 during 1997, 1996, and 1995, respectively)	$ 782,676	$ 761,430	$ 361,062
Income taxes	$ 591,192	$ 1,163,156	$ 638,353

SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:

- -- During 1997, 1996, and 1995, the Company entered into capital lease obligations and notes payable for $1,270,259, $2,522,076, and $1,997,992, respectively, for manufacturing equipment.

- -- During 1997, 1996, and 1995, the Company increased common stock by $222,887, $65,679, and $21,974, respectively, for the tax benefit attributable to appreciation of common stock options exercised.

- -- During 1997 and 1995, respectively, options to purchase 861 and 1,939 shares, respectively, of the Company's common stock were surrendered in exchange for the Company's recording of payroll tax liabilities in the amount of $7,534 and $9,453, respectively.

- -- During 1997, 3,600 shares of Merit common stock with a value of $31,500 were surrendered in exchange for the exercise of stock options.

- -- During 1997, the Company acquired UMI for 152,424 shares of Merit restricted common stock. In connection with this acquisition, the Company recorded the following as of the acquisition date:

Assets acquired	$ 863,198
Cost in excess of fair market value	182,288
Total purchase price	$1,045,486

See notes to consolidated financial statements. (Concluded)

MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

FOR THE YEARS ENDED DECEMBER 31, 1997, 1996, AND 1995

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - Merit Medical Systems, Inc. (Merit) and its wholly-owned subsidiaries, Merit Holdings, Inc. (MHI), and Merit Medical International, Inc. (MMI), and Merit's majority-owned subsidiary, Sentir, Inc. (Sentir), (collectively, the Company) develop, manufacture, and market disposable medical products primarily for use in the diagnosis and treatment of cardiovascular disease. The Company manufactures its products in plants located in the United States and, beginning in 1997, in Ireland. The Company has export sales to dealers and has direct sales forces in the United States, Canada, and Western Europe.

The consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles. The following is a summary of the more significant of such policies.

Use of Estimates in Preparing Financial Statements - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Principles of Consolidation - The consolidated financial statements include those of Merit, MMI, MHI, and Sentir. All material intercompany balances and transactions have been eliminated in consolidation.

Revenue Recognition - Sales are recognized at the time the products are shipped.

Inventories - Inventories are stated at the lower of cost (computed on a first-in, first-out basis) or market.

Long-lived Assets - Impairment of long-lived assets is determined in accordance with Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-lived Assets and of Long-lived Assets to be Disposed Of," which was adopted on January 1, 1996. There were no impairments as of December 31, 1997 or 1996.

Property and Equipment - Property and equipment are recorded at cost. Depreciation and amortization are computed using the straight-line method over estimated useful lives as follows:

Building	30 years
Automobiles	4 years
Manufacturing equipment	5 to 10 years
Furniture and fixtures	5 to 10 years
Leasehold improvements	4 to 25 years

Intangible Assets - Costs associated with obtaining patents, issued and pending, and trademarks have been capitalized and are amortized over the patent or trademark period or charged to expense if not approved. Costs associated with obtaining customer lists are amortized over two years.

Earnings per Common Share - Effective December 31, 1997, the Company adopted SFAS No. 128, "Earnings Per Share", and retroactively restated its earnings per share for 1996 and 1995, to conform with the statement. Accordingly, net income per common share is computed by both the basic method, which uses the weighted average number of the Company's common shares outstanding, and the diluted method, which includes the dilutive common shares from stock options and warrants, as calculated using the treasury stock method. The amounts of such options and warrants are not significant and, accordingly, the Company's basic and diluted earnings per share are the same.

Prepaid Royalty - The prepaid royalty paid by the Company under an agreement which grants to the Company a license and certain rights to technology has been capitalized. Amortization of the prepaid royalty is computed using the straight-line method over the seven year term of the agreement.

Financial Instruments - The Company's financial instruments, when valued using market interest rates, would not be materially different from the amounts presented in the consolidated financial statements.

Statements of Cash Flows - For purposes of the statements of cash flows, the Company considers interest bearing deposits with an original maturity date of three months or less to be cash equivalents.

Foreign Currency Translation Adjustment - The financial statements of the Company's foreign subsidiaries are measured using local currencies as the functional currency. Assets and liabilities are translated into U.S. dollars at year-end rates of exchange and results of operations are translated at average rates for the year. Gains and losses resulting from these translations are accumulated in a separate component of stockholders' equity.

Reclassifications - Certain amounts in prior year consolidated financial statements have been reclassified to conform with current year presentation.

2. ACQUISITION OF UNIVERSAL MEDICAL INSTRUMENT CORPORATION (UMI)

On January 31, 1997, the Company acquired certain assets of Universal Medical Instrument Corporation ("UMI") in exchange for 152,424 shares of the Company's restricted common stock. UMI is a privately held company located in Saratoga County, New York.

The Company's acquisition of UMI's assets was accounted for as a purchase and, accordingly, the results of operations of UMI are included in the Company's consolidated financial statements from the date of acquisition. The total purchase price, including related costs, was allocated to the assets acquired based on their fair values with the excess purchase price over the fair value of assets acquired of $182,288 being allocated to goodwill, which is being amortized over 12 years. The proforma financial information reflecting this transaction for 1996 and 1995 has not been presented as it is not materially different from the Company's historical results.

3. INVENTORIES

Inventories consist of the following at December 31, 1997 and 1996:

	1997	1996
Finished goods	$ 6,261,203	$ 6,284,200
Work-in-process	4,305,202	3,806,150
Raw materials	4,635,593	4,025,497
Less reserve for obsolete inventory	(666,558)	(263,487)
Total	$ 14,535,440	$ 13,852,360

4. INCOME TAXES

Deferred income tax assets and liabilities at December 31, 1997 and 1996 consist of the following temporary differences and carryforward items:

	Current		Long-Term	
	1997	1996	1997	1996
Deferred income tax assets:				
Allowance for uncollectible accounts receivable	$ 70,535	$ 29,404		
Accrued compensation expense	124,997	82,447		
General business credits	29,990	21,757		
Inventory capitalization for tax purposes	82,411	116,608		
Inventory obsolescence reserve	181,729	105,497		
Other	36,128	62,122		
Net operating losses of subsidiaries	256,645	311,225		
Total deferred income tax assets	782,435	729,060		
Deferred income tax liabilities - differences between tax basis and financial reporting basis of property and equipment			$(883,002)	$(852,578)
Net	$ 782,435	$ 729,060	$(883,002)	$(852,578)

Income tax expense for the years ended December 31, 1997, 1996, and 1995 differs from amounts computed by applying the statutory Federal rate to pretax income as follows:

	1997	1996	1995
Computed Federal income tax expense at statutory rate of 35%	$ 621,431	$ 1,270,553	$ 700,243
State income taxes	124,878	231,126	160,562
Creation of tax credits	(164,319)	(61,435)	(52,104)
Tax benefit of foreign sales corporation	(106,574)	(85,614)	(46,628)
Losses of subsidiaries recorded at foreign rates	496,685	289,594	105,000
Change in deferred income tax asset valuation allowance		(353,710)	(150,000)
Other - including the effect of graduated rates	(27,120)	(13,083)	(16,655)
Total income tax expense	$ 944,981	$ 1,277,431	$ 700,418
Consisting of:			
Current	$ 967,932	$ 1,114,956	$ 901,186
Deferred	(22,951)	162,475	(200,768)
Total	$ 944,981	$ 1,277,431	$ 700,418

5. LINE OF CREDIT AND LONG-TERM DEBT

Line of Credit - As of December 31, 1997, the Company had a line of credit for $10,500,000. The credit line is collateralized by trade receivables, inventories, property and equipment, and intangible assets and accrues interest at the bank's prime rate. Under the terms of the line, among other things, the Company is required to maintain positive earnings for each fiscal quarter during the term of the loan, maintain a ratio of total liabilities to tangible net worth not to exceed 1.1 to 1.0, maintain a ratio of current assets to current liabilities of at least 1.5 to 1.0, maintain minimum working capital of $9,000,000, and is restricted from paying dividends to shareholders. As of December 31, 1997 and 1996, the Company owed $4,624,727 and $4,533,873, respectively, under this line of credit.

Long-term Debt - Long-term debt consists of the following at December 31, 1997 and 1996:

	1997	1996
Notes payable to financial institutions; payable in monthly installments through 2002, including interest at rates ranging from 6.5% to 10.34%; collateralized by equipment	$4,777,090	$4,847,317
Capital lease obligations (see Note 6)	939,528	1,363,385
Total	5,716,618	6,210,702
Less current portion	1,802,932	1,388,576
Long-term portion	$3,913,686	$4,822,126

Scheduled maturities of long-term debt at December 31, 1997 are as follows: Year ending December 31:

1998	$ 1,802,932
1999	1,702,069
2000	1,288,177
2001	728,518
2002	194,922
Total	$ 5,716,618

6. COMMITMENTS AND CONTINGENCIES

Leases - The Company has noncancelable operating lease agreements for off-site office and production facilities and equipment. The leases for the off-site office and production facilities are for 5 years and have renewal options of one to five years. The Company has subleased these facilities during 1997, 1996, and 1995. Total rental income from these subleases for the years ended December 31, 1997, 1996, and 1995 was approximately $97,000, $153,000, and $69,000, respectively. Total rental expense on these operating leases and on the Company's new manufacturing and office building (see below) for the years ended December 31, 1997, 1996, and 1995 approximated $2,783,000, $2,448,000, and $2,058,000, respectively.

In June 1993, the Company entered into a 25 year lease agreement with a developer for a new manufacturing and office building. Under the agreement, the Company was granted an option to purchase the building at fair market value after 10 years and, if not exercised, after 25 years. Upon the building's completion in February 1995, monthly rental payments were approximately $108,000. In connection with this lease agreement, the Company in 1993 sold to the developer 10 acres of land on which the building was constructed. The $166,136 gain on the sale of the land has been recorded as a deferred credit and is being amortized as a reduction of rent expense over ten years.

During 1997, 1996, and 1995, $16,614, $16,614, and $15,230, respectively, of this deferred credit was amortized as a reduction of rent expense. In connection with the construction of the building, the Company capitalized interest costs of approximately $402,000 during the year ended December 31, 1994. In connection with the lease agreement, the Company issued to the developer warrants to purchase 155,461 shares of the Company's common stock at $4.95 subject to carrying cost increases of 3% per year. The warrants expire in 2005.

The Company leases manufacturing and office equipment under long-term capital lease agreements. Capital leases are collateralized by equipment approximating $1,607,000 and $1,635,000 with accumulated amortization of approximately $296,000 and $249,000 as of December 31, 1997 and 1996, respectively.

The future minimum lease payments, together with the present value of the net minimum lease payments as of December 31, 1997, are as follows:

	Operating Leases	Capital Leases
Year ending December 31:		
1998	$ 3,311,164	$ 314,707
1999	3,053,800	296,317
2000	2,101,075	281,785
2001	1,608,249	200,686
2002	1,490,558	
Thereafter	24,209,544	
Total minimum lease payments	$ 35,774,390	1,093,495
Less amount representing interest and executory costs		(153,967)
Present value of net minimum lease payments (see Note 5)		$ 939,528

Irish Government Development Agency Grants - Through December 31, 1997, the Company has entered into several grant agreements with the Irish Government Development Agency of which $747,888 and $416,891 remained in receivables at December 31, 1997 and 1996, respectively. The grant agreements reimburse the Company for a portion of the cost of property and equipment purchased in Ireland, specific research and development projects in Ireland, and costs of hiring and training employees located in Ireland. The Company has recorded the grants related to research and development projects and costs of hiring and training employees as a reduction of operating expenses in 1997, 1996, and 1995 in the amounts of $146,476, $230,654, and $194,440, respectively. Grants related to the acquisition of property and equipment purchased in Ireland are recorded as deferred credits and are amortized to income over lives corresponding to the depreciable lives of such property. During 1997, 1996, and 1995, $74,541, $57,005, and $40,531, respectively, of the deferred credit was amortized as a reduction of operating expenses.

Other Deferred Credits - The Company has also received non-interest bearing advances from a utility company under a program whereby such advances are made available for the cost of energy reduction improvements made to the Company's facilities. Through December 31, 1997, the Company had received total advances under this program of $521,419. As of December 31, 1997 and 1996, the balance owing and included in deferred credits totaled $328,257 and $397,724, respectively. The advances are payable over eleven years in monthly installments.

Preferred Share Purchase Rights - In August 1997, the Company declared a dividend of one preferred share purchase right (a "Right") for each outstanding share of Common Stock which entitles the holder of a Right to purchase one one-hundredth of a share of Series A Junior Participating Preferred Stock at an exercise price of $40 in the event a person or group acquires or announces an intention to acquire 15% or more of the Company's Common Stock. Until such an event, the Rights are not exercisable, and are transferable with the Common Stock and may be redeemed at a price of $.0001 per Right.

Litigation - Bennett vs. Merit Medical Systems, Inc., et al. - On February 4, 1994, an action was filed in the Third District Court of Salt Lake County, State of Utah by an individual claiming to be a shareholder of the Company and naming the Company, Fred P. Lampropoulos, President of the Company, and Sentir, a company founded by Mr. Lampropoulos, as defendants. The claims against the Company were subsequently dismissed. The complaint also asserted claims on behalf of the Company (derivative claims) against Mr. Lampropoulos and Sentir, alleging breach of fiduciary duty and the improper taking of a corporate opportunity in connection with the formation of Sentir. The relief sought in connection with the derivative claims included disgorgement, costs, and attorneys' fees. The Company appointed an independent Special Litigation Committee of the Board to determine the Company's course of action on the derivative claims which engaged counsel separate from the Company's usual counsel for purposes of the derivative claims. On November 7, 1995, pursuant to a Motion filed on behalf of the Company's Special Litigation Committee, the Court made a minute entry granting the Motion to Dismiss the derivative claims, without prejudice. On November 4, 1996, the Special Litigation Committee delivered its report essentially concluding that the derivative claims were not well founded. Nevertheless, on November 22, 1996, the plaintiff refiled only the derivative claims in the Third District Court of Salt Lake County, State of Utah and on January 22, 1997, a Motion to Dismiss was filed on behalf of the Company, seeking to terminate the litigation and asserting that the report of the Special Litigation Committee is entitled to deference under the law.

7. EMPLOYEE STOCK PURCHASE PLAN AND STOCK OPTIONS AND WARRANTS

The Company offers to its employees an Employee Stock Purchase Plan which allows the employee on a quarterly basis to purchase shares of the Company's common stock at the lesser of 85% of the market value on the offering commencement date or offering termination date. The total number of shares available to employees to purchase under this plan is 250,000 of which 53,994 have been purchased as of December 31, 1997.

The Company has a long-term incentive plan which provides for the issuance of incentive stock options, nonstatutory stock options, and certain corresponding stock appreciation rights. The maximum number of shares of common stock for which options may be granted is 2,400,000. Options may be granted to directors, officers, outside consultants, and key employees of the Company and may be granted upon such terms and such conditions as the Compensation Committee in its sole discretion shall determine. In no event, however, shall the exercise price be less than the fair market value on the date of grant.

Changes in stock options and warrants for the years ended December 31, 1997, 1996, and 1995 are as follows:

	Options		Warrants	
	Shares	Weighted Average or Range of Exercise Price	Shares	Weighted Average or Range of Exercise Price
1997:				
Granted	522,700	$ 6.65		
Exercised	227,200	5.80		
Forfeited/expired	43,100	7.19	60,000	$ 7.65
Outstanding at December 31	1,057,100	7.04	155,461	5.25
Exercisable	315,100	7.48	155,461	5.25
Weighted average fair value of options and warrants granted during year		6.65		
Weighted average fair value of shares issued under Employee Stock Purchase Plan		1.03		

	Options		Warrants	
	Shares	Weighted Average or Range of Exercise Price	Shares	Weighted Average or Range of Exercise Price
1996:				
Granted	340,000	$8.19	517	$6.83
Exercised	84,850	6.08	19,267	6.65
Forfeited/expired	43,750	6.02		
Outstanding at December 31	804,700	6.96	215,461	5.85
Exercisable	364,600	6.64	215,461	5.85
Weighted average fair value of options and warrants granted during year		4.50		
Weighted average fair value of shares issued under Employee Stock Purchase Plan		1.16		
1995:				
Granted	182,000	$5.63 - 9.63	155,461	$4.95
Exercised	43,511	3.29 -- 7.00	35,950	3.20 -- 4.67
Options surrendered to the Company in exchange for the recording of payroll tax liabilities	1,939	4.87		
Forfeited/expired	56,250	4.87 -- 9.63	10,900	3.20
Outstanding at December 31	593,300	4.87 -- 9.63	234,211	4.95 -- 7.65
Exercisable	279,150	4.87 -- 9.63	234,211	4.95 -- 7.65

The following table summarizes information about stock options and warrants outstanding at December 31, 1997:

	Options and Warrants Outstanding			Options and Warrants Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
Options:					
4.875 - 7.25	575,100	3.52	$6.09	159,700	$ 6.15
7.50 - 10.625	482,000	4.08	8.17	155,400	8.84
Warrants:					
$5.25	155,461	7.00	$5.25	155,461	$ 5.25

The Company accounts for stock options granted using Accounting Principles Board (APB) Opinion 25. Accordingly, no compensation cost has been recognized for its fixed stock option plans. Had compensation cost for the Company's stock-based compensation plans been determined based on the fair value at the grant dates for awards under those plans consistent with SFAS No. 123, the Company's net income and net income per common and common equivalent share would have changed to the pro forma amounts indicated below (in thousands):

	1997	1996	1995
Net income:			
As reported	$ 797,532	$ 2,162,608	$ 1,221,237
Pro forma	385,340	1,753,765	1,146,934
Net income per common (both basic and diluted) share:			
As reported	$ 0.11	$ 0.31	$ 0.18
Pro forma	0.05	0.25	0.17

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 1997, 1996, and 1995, dividend yield of 0%; expected volatility of 57.5%, 55%, and 55% for 1997, 1996, and 1995, respectively; risk-free interest rates ranging from 5.30% to 7.36%; and expected lives ranging from 2.8 to 4.5 years.

8. SEGMENT REPORTING AND FOREIGN OPERATIONS

During the years ended December 31, 1997, 1996, and 1995, the Company had sales of approximately $13,722,000, $11,900,000, and $8,319,000 or approximately 23%, 24%, and 20%, respectively, of total sales primarily in Japan, Germany, France, and United Kingdom.

The Company operates primarily in one industry in which it develops, manufactures, and markets disposable medical products, primarily for use in the diagnosis and treatment of cardiovascular disease. Major operations outside the United States include a manufacturing and distribution facility in Ireland and sales subsidiaries in Europe. The following is a summary extract of the Company's foreign operations by geographic area for fiscal year 1997, 1996, and 1995:

	Sales to Unaffiliated Customers	Transfers Between Geographic Areas	Revenue	Net Income (Loss)	Identifiable Assets
Fiscal year ended December 31, 1997:					
United States, Canada, and international distributors	$ 54,226,210	$ 860,482	$ 55,086,692	$ 2,774,516	$ 36,322,060
Europe direct	6,352,801	838,219	7,191,020	(2,110,415)	8,947,618
Eliminations		(1,698,701)	(1,698,701)	133,431	
Consolidated	$ 60,579,011	None	$ 60,579,011	$ 797,532	$ 45,269,678
Fiscal year ended December 31, 1996:					
United States, Canada, and international distributors	$ 45,106,815	$ 1,212,962	$ 46,319,777	$ 3,315,534	$ 33,770,512
Europe direct	5,348,951	89,081	5,438,032	(1,029,204)	7,948,041
Eliminations		(1,302,043)	(1,302,043)	(123,722)	
Consolidated	$ 50,455,766	None	$ 50,455,766	$ 2,162,608	$ 41,718,553
Fiscal year ended December 31, 1995:					
United States, Canada, and international distributors	$ 40,704,636	$ 1,031,014	$ 41,735,650	$ 2,513,653	$ 31,081,451
Europe direct	1,882,648		1,882,648	(1,289,135)	3,422,407
Eliminations		(1,031,014)	(1,031,014)	(3,281)	
Consolidated	$ 42,587,284	None	$ 42,587,284	$ 1,221,237	$ 34,503,858

Transfers between geographic areas are accounted for at amounts which are generally above cost and consistent with the rules and regulations of governing tax authorities. Such transfers are eliminated in the consolidated financial statements. Net income by geographic areas reflects foreign earnings reported by the foreign entities. Identifiable assets are those assets that can be directly associated with a particular foreign entity and thus do not include assets used for general corporate purposes.

9. RELATED PARTY TRANSACTIONS

Receivables from employees at December 31, 1997 and 1996 totaled approximately $245,000 and $275,000, respectively (including approximately $120,000 and $144,000, respectively, from officers of the Company).

10. ROYALTY AGREEMENT

On April 8, 1992, the Company settled litigation involving, among other things, allegations that certain of the Company's inflation device products infringed patents issued to another medical product manufacturing company (the Licensor).

Pursuant to the settlement, the Company entered into a license agreement with the Licensor, whereby the Licensor granted to the Company a nonexclusive right and license to manufacture and sell products which are subject to the patents issued to the Licensor. For the rights and license granted under the agreement, the Company paid the Licensor a nonrefundable prepaid royalty in the amount of $600,000. The royalty was paid upon execution of the agreement and represents a prepaid royalty covering the first seven years of the agreement. In addition to the prepaid royalty, the Company agreed to pay the Licensor a continuing royalty beginning January 1, 1992 of 5.75% of sales (which will not exceed $450,000 for any calendar year) made in the United States, of products covered by the license agreement. Royalties of $450,000 were paid or accrued in each of the years ended December 31, 1997, 1996, and 1995.

The Licensor has released the Company from all damages, claims, or rights of action which the Licensor may have had related to the alleged infringement of the patents issued to the Licensor. The Company has also agreed to not proceed against the Licensor for the alleged misappropriation by the Licensor of the Company's confidential and proprietary information.

11. EMPLOYEE BENEFIT PLAN

The Company has a contributory 401(k) savings and profit sharing plan (the Plan) covering all full-time employees who are at least 21 years of age and have a minimum of one year of service to the Company. The Company may contribute at its discretion matching contributions up to 2.25% of the employeesO compensation. Additional employer contributions are determined at the discretion of the Board of Directors. The Company did not contribute to the Plan for the year ended December 31, 1995. Contributions made by the Company to the Plan for the years ended December 31, 1997 and 1996 totaled approximately $223,000 and $227,000, respectively.

The Plan purchased unissued shares of the Company's common stock at market value during each of the three years ended December 31, 1997 as follows:

	Shares	Market Value
Years ended December 31:		
1997	35,582	$ 273,202
1996	39,996	309,370
1995	15,949	99,106

12. RECENTLY ISSUED FINANCIAL ACCOUNTING STANDARDS

In June 1997, the Financial Accounting Standards Board (FASB) issued SFAS No. 130, "Reporting Comprehensive Income". SFAS No. 130 establishes standards for reporting and display of comprehensive income and its components (revenues, expenses, gains, and losses) in a full set of general purpose financial statements. SFAS No. 130 requires that an enterprise (a) classify items of other comprehensive income by their nature in a financial statement and (b) display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of a statement of financial position. SFAS No. 130 is effective for fiscal years beginning after December 15, 1997. The adoption of SFAS No. 130 will require the Company to add disclosure to the financial statements about comprehensive income.

In June 1997, the FASB issued SFAS No. 131, "Disclosure About Segments of an Enterprise and Related Information". SFAS No. 131 establishes standards for the way that public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports issued to shareholders. It also establishes standards for related disclosure about products and services, geographic areas, and major customers. SFAS No. 131 is effective for financial statements for periods beginning after December 15, 1997. The adoption of SFAS No. 131 may result in additional disclosures about the Company's segments.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders
of Merit Medical Systems, Inc.:

We have audited the accompanying consolidated balance sheets of Merit Medical Systems, Inc. and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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, such consolidated financial statements present fairly, in all material respects, the financial position of Merit Medical Systems, Inc. and subsidiaries as of December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997 in conformity with generally accepted accounting principles.

/s/Deloitte & Touch LLP
March 5, 1998
Salt Lake City, Utah

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement Nos. 33-48227, 33-46964, and 333-10509 on Form S-8 of Merit Medical Systems, Inc. of our report dated March 5, 1998, incorporated by reference in this Annual Report on Form 10-K of Merit Medical Systems, Inc. for the year ended December 31, 1997.

DELOITTE & TOUCHE LLP

Salt Lake City, Utah
March 30, 1998

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM MERIT MEDICAL SYSTEMS, INC.'S CONSOLIDATED BALANCE SHEET AND INCOME STATEMENT FOR THE TWELVE-MONTH PERIOD ENDING DECEMBER 31, 1997 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

12-MOS
DEC-31-1997
DEC-31-1997
976692
0
9774557
(175114)
14535440
27468969
25104377
(9648746)
45269678
12730998
3913686
0
0
17178971
9113769
45269678
60579011
60579011
37766116
37766116
0
27049
854859
1775516
944981
2639449
0
0
0
797532
0.11
0.11

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM MERIT MEDICAL SYSTEMS, INC.'S CONSOLIDATED BALANCE SHEET AND INCOME STATEMENT FOR THE NINE-MONTH PERIOD ENDING SEPTEMBER 30, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

9-MOS
DEC-31-1996
SEP-30-1996
357768
0
7142752
(78440)
13418409
22838227
20317937
(7138965)
38024818
9897093
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0
0
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7848557
38024818
37484550
37484550
21796638
21796638
0
15712
517382
2995370
1162823
3484794
0
0
0
1694928
.25
.24