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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, 2003 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 [ ]

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]

Indicate by check mark whether the registrant is an accelerated filer (as defined in rule 12b-2 of the Act) Yes [X] No [ ]

The aggregate market value of the Common Stock held by non-affiliates of the Registrant, on June 30, 2003, which is the last day of the Registrant's most recently completed second fiscal quarter (based upon the closing sale price of the Common Stock on the NASDAQ National Market System on June 30, 2003), was approximately $263 million. 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 10, 2004, the Registrant had 26,095,533 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following document are incorporated by reference in Part III of this Report: the Registrant's definitive Proxy Statement relating to the Annual Meeting of Shareholders scheduled for May 25, 2004.

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PART I.

DISCLOSURE REGARDING FORWARD -LOOKING STATEMENTS

This Report includes "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 statements of assumptions underlying any of the foregoing. All Forward-Looking Statements included in this document are made as of the date hereof and are based on information available to the Company as of such date. The Company assumes no obligation to update any Forward-Looking Statement. In some cases, Forward-Looking Statements can be identified by the use of terminology such as "may," "will," "expects," "plans," "anticipates," "intends," "believes," "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, product introductions, potential product recalls, delays in obtaining regulatory approvals, cost increases, fluctuations in and obsolescence of inventory, price and product competition, availability of labor and materials, development of new products and techniques that render the Company's products obsolete, product liability claims, 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 (the "SEC"). 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. Additional factors that may have a direct bearing on the Company's operating results are described under "Factors That May Affect Future Results" beginning on page 12.

Item 1. Business.

GENERAL

Merit Medical Systems, Inc. (the "Company" or "Merit," "we," or "us") was formed in 1987 by a few 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 product design, 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 group of sensor-based products designed to address a broad range of needs related to diagnostic and interventional catheterization procedures performed in hospitals. The Company has expanded its product offerings to include angiographic catheters, guide wires, needles, safety products, therapeutic infusion catheters and accessories, drainage catheters and accessories, and a number of line extensions to core products.

The Company's strategy is to offer a broad line of innovative, disposable products for diagnosis and intervention in radiology and cardiology. Merit continues to increase market acceptance and penetration for both its existing and new products in the United States and in international markets. Longer term, the Company's strategy is to extend the application of its sensor-based technologies, plastics molding, catheter, guide wire, and electronic capabilities and to develop products for diagnostic and interventional procedures in additional markets such as neuroradiology, nephrology, pain management and critical care. The Company's sales of stand-alone products in combination with custom kits have increased as additions have been made to the Company's product lines. In 2003, approximately 51% of the Company's sales were made directly to U. S. hospitals and approximately 24% of sales were made to custom packagers, distributors and original equipment manufacturers ("OEM") companies who also distribute to U. S. hospitals. Approximately 25% of the Company's sales in 2003 were made in international markets.

The Company was organized in July 1987 as a Utah corporation. In July 1994, the Company purchased a controlling interest in Merit Sensor Systems, Inc. (formerly Sentir, Inc.), a California-based manufacturer of silicon sensors, and during 1999, the Company purchased the remaining interest in Merit Sensor Systems, Inc. The Company also has established subsidiaries in Ireland, Germany, France, the United Kingdom, Belgium, and the Netherlands to conduct its international business. In January 1997, the Company purchased the operating assets and product lines of Universal Medical Instruments Corp. ("UMI"). In August 1999, the Company purchased the operating assets and product lines of the Angleton, Texas division of Mallinckrodt Inc. ("Mallinckrodt"). Unless otherwise specified or evident from the context, references to the Company include its consolidated subsidiaries. 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 cardiac catheterization and radiology laboratories, consultation with the Company's medical advisors and consultants and direct communication with customers. Since 1988, the Company has developed and introduced several product lines, including the following:

- coronary control syringes (CCS(TM), Smart Tip(TM) Inject8(TM), and Inject10(TM));
- inflation devices (IntelliSystem(R), Monarch(R), Basix(R), BasixCOMPAK(TM) including new 30-atmosphere versions), and monitors (IntelliSystem II);
- specialty syringes (Medallion(R)and VacLok(R));
- high-pressure tubing and connectors (Excite(TM), flexible, braided, rigid, pvc, and Sherlock(TM));
- waste management products (Merit Disposal Depot(R), Backstop(R)and ShortStop(R), Dugout(TM));
- disposable blood pressure transducer (Meritrans(R)), and pressure monitoring tubing;
- disposable hemostasis valves (MBA(TM), Passage(R), Access-9,(TM)Access Plus(TM), Double-Play(TM)) and guide wire torque devices;
- manifolds and stopcocks (Marquis(R)series);
- radial artery compression systems (Radstat(TM));

- contrast management systems (Miser(R)and In-Line(TM) Contrast Management System(TM), drip sets and spikes);

- angiography needles (Majestik(R) series, Majestik(R) Shielded Needle, and Merit A.S.K. Kits(TM));

- drainage catheters and accessories (Resolve, One Step(R)and Percustay(R));

- pericardiocentesis catheters and procedure trays;

- thrombolytic infusion catheters (Fountain(R)and Mistique(TM)) and accessories (Squirt(R));

- diagnostic angiographic pigtail catheters, diagnostic cardiology and radiology catheters (SofTouch(R) and Performa(R)), and marker band catheters;

- guide catheters (Trax(R));

- sheath introducers (DialEase(TM)), and vessel dilators, fixed and movable core;

- diagnostic guide wires (Inqwire(R)), and accessories (Keep(TM) and Ringmaster(TM)), and hydrophilic guide wires, (Merit H20(TM));

- and pressure infusor bags.

These products are sold separately and many are sold in custom kits consisting primarily of selected combinations of products.

The Company has not experienced any significant product liability claims; however, the sale and use of its products entail 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.

The following paragraphs contain a brief description of, and provide other information regarding, Merit's key products:

Inflation Devices and Angioplasty Accessories. Inflation devices are large, specialized syringes used in interventional catheterization procedures to inflate balloon-tipped catheters. Each of the Company's inflation devices incorporates patented, proprietary design features which contribute to ease of use, including allowing the clinicians to engage or release the syringe plunger with one hand while increasing or decreasing pressure. Each syringe also provides a clear view of the fluid path that simplifies debubbling and contributes to accurate measurement of pressure.

The Company's IntelliSystem(R) inflation device, which was the first such device to incorporate electronic sensing and display features, consists of a disposable 20cc inflation syringe and an internal pressure transducer which connects to a monitor outside of the sterile field. The IntelliSystem(R) monitor 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 display of such information is much more accurate and precise than that which can be obtained from conventional analog gauges. The data is stored and may be displayed, retrieved, graphed and printed.

In 2003, Merit launched the patented IntelliSystem II(TM) color monitor, an advanced balloon inflation system. It gives physicians several highly desirable options, including a large touch screen, an instant readout of positive and negative pressures, and an enlarged graphing display to show extremely subtle changes in pressure measurements. In addition, the readouts are available in four languages by touching the screen. Management believes that Merit is the only company with digital technology sensitive enough to show subtle changes in pressure.

The Monarch(R) is a disposable inflation device which digitally displays data concerning pressure and duration of inflations and deflations on a small digital readout mounted on the barrel of the inflation syringe. The small monitor does not offer the same display, storage or printing capabilities of the IntelliSystem(R) & IntelliSystem II(TM) but offers the convenience of portable, digital operation. In 2003, Merit launched a 30-atmosphere version of the Monarch(R) to provide clinicians with additional options.

The Basix(R) and the BasixCOMPAK(TM) are disposable inflation syringes which incorporate a conventional analog pressure gauge mounted on the barrel of the inflation syringe. The Basix(R) more closely resembles devices marketed by the Company's competitors but includes the Company's proprietary design features and benefits. The Company believes that the Basix(R) and BasixCOMPAK(TM) represent a significant addition to its line of inflation devices and will contribute to increased sales where both clinical outcomes and price are a priority.

Hemostasis Valves. The MBA(TM), Passage(R), AccessPlus(TM), and Double Play(TM), hemostasis valves are used in conjunction with the Company's inflation devices and as a component of the Company's angioplasty packs. These valves are made of polycarbonate plastic for clarity and include Sherlock(TM) connectors. The devices differ in size and function. The MBA(TM) features a valve mechanism that minimizes blood loss during exchange of wires, catheters and other tools through the valve. The Access Plus(TM) and Access 9(TM) are large-bore configurations. The Double Play(TM) incorporates a double "Y" configuration for kissing-balloon techniques.

Torque Device. The Merit torque device is a guide wire steering tool with a tapered design and contrasting colors for improved visibility. The torque device typically is included as a component of the Company's angioplasty packs.

Coronary 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, angioplasty and stent placement. (A stent is a device that is inserted into a vessel or passage to keep it open and prevent closure due to stricture or external pressure). Control syringes are molded from polycarbonate material, which is stronger than glass and other plastics used in the medical products industry. The Company offers different models and sizes of the control syringes with varying features, according to physician preference. These features include different configurations of syringe handles, plungers and connectors which allow operation of the syringe in a fixed or rotating position and varying volume sizes, including a popular 8ml model, Inject8(TM) and the new, streamlined Inject10(TM). In response to customer requests, Merit launched latex-free control syringes.

Specialty Syringes. Merit's Medallion(R) syringes, a line of disposable, latex-free, color-coded specialty syringes, are used for injection of medications, flushing manifolds and other general purposes. These syringes are molded of polycarbonate material for added strength and are available in hundreds of sizes, colors and custom printing combinations. The color-coding minimizes medication errors by allowing a clinician to assign a color for each medication to be dispensed and to differentiate syringes by their contents. The syringes also can be custom printed to the specifications of the user. The

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 and are an important component of the Company's custom kits.

The 60ml VacLok(R) syringe is used to create negative pressure. There are many clinical applications for a negative pressure syringe, including abscess drainage and biopsy, balloon preparation, nephrostomy drainage, and more.

Large-Bore Stopcock(TM). The Large-Bore(TM) Stopcock is designed to facilitate movement of fluid. The large internal diameter (0.120") is designed for moving drainage fluid from the body. Like all Merit stopcocks, the large-bore version incorporates a clear body for easy visualization and a large, easy-to-manipulate handle.

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

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 are accomplished through a series of valves on a manifold which control the flow of various fluids. The Company has designed its own manifold consisting of one, two, three, four or five valves. When compared to manifolds sold by competitors, 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. The Merit Manifold is sold separately but is also a key component of the Company's custom kits.

Percu-Stay(R) - Catheter Fixation Device. Percu-Stay(R) is a one piece catheter tube securing device and site dressing for percutaneous drainage sites. The product provides a comfortable, low-profile fixation device for catheters and tubes. The device is used in interventional radiology, special procedures, cardiology, urology, home health care, and skilled nursing facilities.

MDD600(TM). The Merit Drainage Depot(TM) is specifically designed to temporarily collect fluids. It incorporates a drainage spout for quick and easy fluid disposal, and an internal anti-reflux valve to help prevent fluid from backing up the line. The bag also comes packaged with an adjustable velcro strap that can be used to attach the device to the patient's waist or leg.

High-Pressure Contrast Injection Line and Sherlock(TM) Connectors. During angiographic and diagnostic radiology procedures, contrast media must be injected through a catheter into a patient's artery or vein. This is sometimes accomplished by a mechanical injector which can generate pressures up to 1200 pounds per square inch ("psi"), and requires tubing that can withstand these pressures. The Company offers high-pressure, braided and clear, specialty tubing with proprietary Sherlock(TM) connectors. Excite(TM) is a line of clear, flexible, high-pressure tubing that combines the features of tubing clarity and strength. Sherlock(TM) connectors allow coupling and uncoupling of tubing with injectors, syringes and manifolds without over-tightening or breakage. The Company is currently offering specialty tubing that can handle pressures ranging from 500 to 1200 psi. The specialty tubing with Sherlock(TM) connectors is an important component of custom kits.

RadStat(TM) Radial Artery Compression Device. The RadStat(TM) Radial Artery Compression Device is intended to be used to apply direct pressure to the radial artery puncture site after diagnostic and interventional procedures. In addition to rapid controlled hemostasis, the RadStat(TM) immobilizes the wrist comfortably, permitting rapid patient ambulation.

Waste Containment Systems. Because of heightened awareness of the risks associated with 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 in a closed system and collects waste materials such as blood and other fluids during angioplasty or other procedures. The Merit Disposal Depot(TM) is self-contained for ease of disposal and reduces the risk of contamination. The Backstop(R) is a unique and proprietary alternative fluid disposal basin designed to reduce exposure to blood-borne pathogens. The DugOut(TM), a large volume (1000 ml) line extension to the Backstop(R). The DugOut(TM) also contains an additional compartment for the storage of accessories.

Contrast Management Systems. The Miser(TM) and the In-Line(TM) Contrast Management System have been designed to increase catheterization lab efficiencies by reducing contrast media waste. This small system helps save hospitals thousands of dollars a year in wasted contrast.

Majestik(R) Angiographic Needles. The angiography needle creates the percutaneous (through the skin) access site for virtually all invasive diagnostic and interventional procedures performed in cardiology and radiology. The needle provides the initial point of entry site for the introducer sheath, guide wires, catheters and any other interventional devices. The Merit Majestik(R) Needle helps the physician achieve precision vascular access with one of the sharpest angiography needles on the market.

Majestik(R) Shielded Angiography Needles. The Needlestick Safety and Prevention Act passed by the United States Congress in November 2000 requires healthcare employers to document their exposure control plan and evaluate safety-engineered products to protect clinicians. In 2002, Merit launched a new line of shielded, 18-gauge angiography introducer needles that meet the requirements of the law. Merit's management believes the Majestik(R) shielded needle is one of the first safety-engineered devices designed to promote safer needles in cardiology and radiology. Access Safety Kits (A.S.K. Merit) were launched in early 2003 and include protected scalpels and needles used for vascular access.

Fountain(R) and Mistique(TM) Infusion Catheters. Vascular occlusion is a common anomaly that affects millions of patients each year. Both the Fountain(R) and the Mistique(TM) catheters deliver therapeutic solutions to dissolve thrombolytic occlusions (blood clots) in peripheral arteries, hemodialysis grafts and deep veins. The Fountain catheter utilizes an occluding wire to effectively block off the end hole and direct the infusion therapy uniformly through the laser-drilled side holes. The Mistique(TM) is designed to be used over standard 0.035 or 0.038 guide wires to block off the end hole and direct the infusion therapy uniformly through the side holes.

Squirt(R) Fluid Dispensing System. The Squirt(R) fluid dispensing system is a unique and proprietary product designed specifically for therapeutic infusion for controlled, accurate and consistent fluid delivery. Some Fountain catheter configurations contain a Squirt(R) packaged with them.

InQwire(R) Diagnostic Guide Wires. Guide wires consist of a small-diameter wire tightly wrapped in a coated wire coil. The technology needed to produce these wires is considerable, and Merit utilizes its guide wire center of excellence in Ireland to manufacture the InQwire Diagnostic Guide Wire. Guide wires vary in length, outside diameter and tip configuration, and are used to place either a diagnostic or therapeutic catheter into a patient's heart artery or other area of the body. In late 2003, Merit launched a line of hydrophilic guide wires (H20).

RingMaster(TM). The RingMaster(TM) guide wire basin allows clinicians to conveniently store guide wires to maintain sterility and organization. It separates wires for quick selection, uses less table space than conventional basins because it's stackable, and it helps keep wires hydrated throughout the procedure.

Vessel Dilators. Dilators are used to dilate puncture sites. They are commonly used in radiology and cardiology over a 0.035" or 0.038" guide wire to dilate the site prior to placing sheaths and catheters in the femoral artery.

DialEase(R) Introducer Sheath. The DialEase(R) Sheath is a short introducer ideally suited for dialysis graft intervention. It is commonly used in conjunction with the Fountain(R) and Mistique(TM) therapeutic infusion catheters to declot dialysis grafts.

Angiography Pigtail Catheter. In 1997, Merit acquired new product lines and technologies from UMI, a small specialty medical manufacturing firm in the State of New York. At that time, the Company began marketing a new line of thin-wall, (Teflon(R)), high-flow, pigtail angiographic catheters designed for smaller patients.

Pericardiocentesis Kit. On occasion, the pericardial sack surrounding the heart becomes filled with blood or fluid. To remove the fluid and the potential for heart strangulation (tamponade), a catheter is placed in the pericardial sack to drain the excess fluid. Merit offers a complete pericardiocentesis kit which combines a high-flow drainage catheter with virtually all components needed to place the device in the pericardial sack. The kit combination saves the physician both time and money by having all components in one convenient tray.

One-Step(TM) Centesis Catheter. The One Step(TM) Catheter is intended to be used for short-term centesis procedures. It incorporates a luer-locked introducer needle for secure, one-handed placement. The tip of the introducer needle is echogenically enhanced for visualization during ultrasound-guided placement. The transition between the catheter and needle is smooth to facilitate insertion. In 2003, Merit launched a new line of safety kits including the One-Step centesis catheter.

Resolve(TM) Universal Drainage Catheter with Non-Locking Pigtail. The Resolve(TM) Universal Drainage Catheter with non-locking pigtail is a standard drainage catheter designed to expand Merit's offering of drainage products.

Meritrans(R) Pressure Transducer and Accessories. Diagnostic blood pressure monitoring is a critical priority in virtually all diagnostic and interventional procedures. The Meritrans(R) provides clinicians with reliable and precise blood pressure measurement. The clear, flow-through design makes flushing and debubbling simple and safe. The transducer is a vital component of many custom kit configurations. Pressure Monitoring Tubing and Stopcocks are common ancillary products to complement the Meritrans(R). Merit provides several reusable accessories to support the Meritrans(R). The Merit Mentor(TM) is a transducer calibration and troubleshooting device to insure accuracy and repeatability of physiologic pressure measurements. Reusable transducer cables connect the Meritrans(R) to the bedside monitor. Organizing brackets hold multiple transducers to beds and IV poles.

Pressure Infusor Bag. In 2001, Merit signed a distribution agreement for a line of Pressure Infusor Bags. These devices are used hospital-wide to apply pressure to a sealed bag of fluid, such as IV solutions or blood products. The pressure exerted is shown by a color-coded pressure gauge, and the device has a valve that releases pressure to prevent inadvertent over-pressurization. In 2003, Merit launched its own pressure infustor bags with a proprietary over-pressure relief valve.

ShortStop(R). In 2000, Merit introduced the ShortStop(R), a small, temporary sharps container with an adhesive base that fits on the back table in a clinical lab. It is used for the temporary containment of needles, scalpels and other sharp tools to help prevent inadvertent clinician injury.

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

Universal Fluid Dispensing Syringe. In 1997, the Company received 510(k) approval from the U.S. Food and Drug Administration (the "FDA") for use of its digital inflation devices (IntelliSystem(R) and Monarch(R) products) for a wide range of additional clinical applications such as discography, esophageal dilatation, trigeminal nerve compression, and retinal detachment. Universal fluid dispensing syringes incorporate patented, proprietary design features which contribute to ease of use, including allowing the clinicians to engage or release the syringe plunger with one hand while increasing or decreasing pressure. Each syringe also provides a clear view of the fluid path that simplifies debubbling and contributes to accurate measurement of pressure. When used in other clinical applications such as discography, the IntelliSystem(R) accurately dispenses fluid while documenting and graphing pressures in the disc. The Company believes that electronic sensing display of such information is much more accurate and precise than the tactile feel of standard syringes and that of conventional analog gauges. The data is stored and may be displayed, retrieved, graphed and printed.

Diagnostic Cardiology Catheters. Cardiac catheterization is performed to diagnose the nature, severity, and precise location of blockages and other abnormalities of the heart. This technique represents the most essential diagnostic tool in the management of patients with cardiovascular disease. The Company manufactures and sells a complete line of diagnostic catheters used for these procedures.

Diagnostic Radiology Catheters. Radiology catheters are engineered and designed with distinct tip configurations to access specific vessels and organs outside the heart (head, kidneys, legs, etc). Merit acquired a strong radiology catheter product portfolio from Mallinckrodt's Angleton Division in 1999.

Vessel-Sizing Catheters. In 2000, Merit introduced a complete line of adult vessel-sizing catheters, which are used by radiologists to measure the internal diameter and length of a blood vessel under fluoroscopy. Procedures in which these catheters are used include angioplasty, embolization, abdominal aortic aneurysm (AAA) stent-grafts and vena cava filter placements. In 2001, pediatric vessel-sizing catheters were introduced to complement the line.

Guide Catheters. The Company's acquisition of the operating assets and product lines of Mallinckrodt's Angleton division in 1999 brought a line of high-quality guide catheters used in cardiology. Coronary angioplasty requires the use of a guiding catheter to place the balloon within the vasculature. The catheter is inserted through a sheath into the arterial system. Once in place, the guiding catheter acts as a conduit for the guide wire, the dilating balloon catheter, coronary stents and radiopaque dye that is used to provide fluoroscopic visualization during the procedure.

MARKETING AND SALES

Target Market/Industry. Cardiovascular disease is the number-one health problem in the United States. According to American Heart Association estimates, nearly 60 million Americans, or approximately 25% of the population, have one or more types of heart disease. Cardiovascular disease accounts for an estimated one million deaths annually, more than 40% of the U.S. total. A majority of the Company's sales revenues are derived from products used in coronary angiography and angioplasty procedures designed to treat cardiovascular disease. The Company believes that transcatheter modalities (products and technologies utilizing

heart catheterization procedures) such as balloons, bare metal and drug eluding stents, and defect repair currently represent the greatest potential to diagnose and treat the disease. The Company intends to build upon its existing market position in both catheter technology and accessory products to continue its sales growth.

The global market for transcatheter products stands at a major crossroad, even when considering the continued dynamic evolution in vascular stent placement. The core diagnostic and therapeutic applications for basic transcatheter technologies (balloons, stents and defect repair) are well established, with the future growth of procedures and products dependent upon demographic trends. This has not, however, prevented significant investment in new technologies and applications designed to enhance patient outcomes and enable the treatment of new populations that have been traditionally limited to surgical intervention. Much of this additional investment relates to procedures, devices and drugs for the treatment and prevention of coronary artery disease that have been developed and are currently being used by physicians. These procedures, devices and drugs include laser angioplasty, 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 Merit products. However, with the advent of vascular stents and other procedures, such as discography and kyphoplasty, the Company has experienced continued growth in its proprietary inflation technology. The Company is monitoring trends in the industry and believes it is in a position to launch catheters and accessories to support growing clinical applications.

There are a large number of projects focused on improving the diagnosis of cardiovascular disease, solving the issue of restenosis and other less invasive alternatives to open-heart surgery. In recent years researchers have focused their interests on technologies and products that support the growth of transcatheter approaches to reducing the morbidity and mortality of cardiovascular disease, including drug-coated stents, radiated stents and balloons, anti-platelet therapy, gene therapy, percutaneous coronary thrombectomy and transmyocardial revascularization. One area of specific interest to the Company is transradial catheterization which is the introduction of vascular catheters through the radial artery allowing for rapid ambulation which ultimately reduces total patient cost. The Company plans to continue to develop and launch innovative products to support these clinical trends.

Market Strategy. The Company's marketing strategy is focused on identifying and introducing highly profitable, 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, physicians and technicians who perform the clinical procedures.

When a product suggestion demonstrates sustainable competitive advantage, meets customer needs, fits strategically and technologically with the Company's business, and has a good potential financial return, a "project team" is chartered with individuals from the Company's marketing, engineering, manufacturing, legal and quality assurance departments. This team identifies the customer requirements, integrates the design, compiles all necessary documentation and testing, and prepares the product for market introduction. The Company 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, an executive sales manager, five regional sales managers and 46 direct sales representatives located in major metropolitan areas throughout the United States. The Company's sales people are trained by 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. Approximately 100 independent dealer organizations distribute the Company's products worldwide, including territories in Europe and Asia. Approximately 17 direct sales representatives presently sell the Company's products in Germany, France, the United Kingdom, Belgium, Netherlands, and Ireland. In 2003, the Company's international sales grew by 27% and accounted for approximately 25% of total sales. The Company has appointed a vice president for international sales and established an international sales and distribution office in Maastricht, The Netherlands. With the recent and planned additions to its product lines, the Company believes that its 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 it is sold. International dealers are responsible for compliance with all applicable laws and regulations in their respective countries.

OEM Sales. The Company currently has an OEM division that manufactures and sells molded components sub-assembled goods, and bulk non-sterile goods, which may be combined with other components and/or goods from other companies and then sold under a non-Merit label. Merit has both international and domestic OEM sales.

CUSTOMERS

The Company serves hospital-based cardiologists, radiologists, anesthesiologists, physiatrists (pain management physicians), neurologists, technicians and nurses, all of whom influence the purchasing decision for Merit's products. Hospitals and acute care facilities in the United States purchase the Company's products through the Company's direct sales force, distributors, OEM relationships, custom packagers and packers who assemble and combine products in custom kits and packs. Outside the United States, customers (hospitals and acute care facilities) purchase through the Company's direct sales force, or in the absence of a sales force, purchase through independent distributors and OEM relationships.

In 2003, approximately 51% of the Company sales were made directly to domestic hospitals, approximately 14% to custom tray manufacturers and domestic dealers, and approximately 25% to international markets. Sales to the Company's single largest customer, a packer, accounted for approximately 7% of total sales during the year ended December 31, 2003. Merit manufactures products for other medical device companies through its OEM program. During the year ended December 31, 2003, OEM sales represented approximately 12% of Merit's total revenue, which includes 2% purchased by international OEM companies.

RESEARCH AND DEVELOPMENT

The Company believes that one of its historic strengths is its ability to quickly adapt its expertise and experience in injection molding and to apply its electronic and sensor technologies as well as its recently developed and acquired technologies of guide wires and catheters 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 the use of sensor-based technologies in a variety of applications and additional inflation devices with added capacities and features. There is a new focus on interventional vascular access products, such as needles, guide wires, and catheters. Several of the Company's executive officers also devote a substantial portion of their time to research and development. Research and development expenses were $4,626,459, $4,007,622 and

$4,117,839 in 2003, 2002 and 2001, respectively. The Company did not conduct any customer-sponsored research and development during those periods. The Company anticipates that its research and development expenses will range between approximately 3% and 4% of net sales during the year ending December 31, 2004.

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(R) and Monarch(R) inflation devices are assembled from standard electronic components or purchased from suppliers. In July 1994, the Company acquired a 73% interest and in August 1999 the Company acquired the remaining interest in Merit Sensor Systems, Inc., which develops and markets silicon sensors. Merit Sensor Systems, Inc. is presently providing virtually all of the sensors utilized by the Company in its digital inflation devices.

The Company's products are manufactured at several facilities including South Jordan, Utah; Santa Clara, California; Galway, Ireland; Angleton, Texas and a leased expansion facility in Murray, Utah. See "Item 2. Properties."

Merit's variety of suppliers for raw materials and components necessary for the manufacture of its products, as well as its long term relationships with such suppliers, promote stability in its manufacturing process. Historically, Merit has not been materially affected by interruptions with such suppliers. Further, contingency plans are in place to engage back-up suppliers so that materials and components continue to be available.

COMPETITION

The radiology and cardiology markets encompass a large number of suppliers of many different sizes. The Company competes with small firms, such as Possis Medical and Microtherapeutics; medium-sized companies like Cook, Arrow and Angio Dynamics; and large, international, multi-supply medical companies, such as Johnson & Johnson, Boston Scientific, Guidant, Medtronic and C.R. Bard. Many of the Company's competitors have substantially greater financial, technical and marketing resources than the Company.

The principal competitive factors in the markets in which the Company's products are sold 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, and the Company's prompt attention to customer inquiries. The Company's products are priced competitively, but generally not below prices for competing products.

The Company's management believes, based on available industry data with respect to the number of procedures performed, that it is one of two market leaders in the United States for control syringes, tubing and manifold kits (together with NAMIC USA Corporation, a subsidiary of Boston Scientific), and is the leader in the U.S. market for inflation devices and hemostasis accessories. The Company's management also believes that the recent and planned additions to the Merit product lines will enable Merit to compete more effectively in both U.S. and international markets. The Company's new IntelliSystem(R) II color monitor provides considerable improvements, including sensitivity, in Merit's existing, patented digital technology. Management believes the Company is the only provider of digital inflation technology in the world. 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, 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. However, with the advent of vascular stents and other procedures such as discography, the Company has experienced continued growth in its proprietary inflation technology.

PATENTS, 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. Merit has received 93 issued U.S. and foreign patents, and many more are pending. Two U.S. patents were issued in 1991 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, and two U.S. patents were obtained in 1992 and 1993 covering digital control aspects of the Company's IntelliSystem(R) inflation device and for displaying, storing and retrieving inflation data. The Company has obtained other patents covering each of its Monarch(R) and Basix(R) inflation devices and additional features of the IntelliSystem(R). Patents granted to the Company prior to 1995 expire 17 years after the date of grant, and patents granted to the Company after 1995 expire 20 years after the date of application.

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. Moreover, although certain of the Company's key patents will expire in 2008 and other patents will expire thereafter, the Company expects that related products will continue to be valuable, in part because of proprietary innovations made since the issue of the initial patent. The Company negotiated a license in 1992 with respect to patents concerning technology utilized in its IntelliSystem(R) and Monarch(R) inflation devices in consideration of a 5.75% ongoing royalty, not to exceed $450,000 annually. Royalties paid in each of 2003, 2002 and 2001 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" above. 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 by the FDA. 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 Vice President of regulatory affairs and a Vice President of quality systems who are responsible for compliance with all applicable FDA regulations. Although the Company believes it is currently in material compliance with these requirements, the Company's business could be adversely affected by a failure to comply with all applicable FDA and other government regulations presently existing or 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 promulgated by the FDA and similar regulatory 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 approval by the FDA prior to marketing. Products subject to the Section 510(k) of the Federal Food Drug and Cosmetic Act require FDA clearance prior to marketing. To date, the Company's products have required only compliance with Section 510(k). The Company's products are subject to foreign regulatory approvals before they may be marketed abroad. The Company places the "CE" mark on devices and products sold in Europe. The Company has received ISO 13485 certification for its South Jordan, and Murray, Utah facilities, and Angleton facilities. The Company has received ISO 9001 and EN46001 for its Galway, Ireland facility. The Company has also received ISO 9002 certification for its Merit Sensor Systems, Inc. facility in Santa Clara, California.

EMPLOYEES

As of December 31, 2003, the Company employed 1,210 persons, including 917 in manufacturing, 116 in sales and marketing, 94 in engineering, and research and development, and 83 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. All Merit employees are bound by policies of confidentiality. None of the Company's employees is represented by a union or other collective bargaining group and management of the Company believes that its relations with its employees are good.

AVAILABLE INFORMATION

The Company files annual, quarterly and current reports and other information with the SEC. These materials can be inspected and copied at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of these materials may also be obtained by mail at prescribed rates from

the SEC's Public Reference Room at the above address. Information about the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The address of the SEC's Internet site is http://www.sec.gov.

The Company makes available, free of charge, on its Internet website, located at http://www.merit.com, its most recent Annual Report on Form 10-K, its most recent Quarterly Report on Form 10-Q, any current reports on Form 8-K filed since the Company's most recent Annual Report on Form 10-K and any amendments to such reports as soon as reasonably practicable following the electronic filing of such report with the SEC. In addition, the Company provides electronic or paper copies of its filings free of charge upon request.

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 identifiable assets, see Note 9 to the Company's Consolidated Financial Statements included in this report.

FACTORS THAT MAY AFFECT FUTURE RESULTS

The business, operations and financial condition of the Company are subject to certain risks and uncertainties. Should one or more of these risks or uncertainties materialize, or should any underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated, projected or expected. Among the key factors that may have a direct bearing on the Company's business, operations and financial condition are the factors identified below:

The Company's products may be subject to recall or product liability claims.

Merit's products are used in connection with surgical procedures and in other medical contexts in which it is important that those products function with precision and accuracy. If the Company's products do not function as designed, or are designed improperly, the Company may be forced by regulatory agencies to withdraw such products from the market. In addition, if medical personnel or their patients suffer injury as a result of any failure of the Company's products to function as designed, or an inappropriate design, the Company may be subject to lawsuits seeking significant compensatory and punitive damages. Any product recall or lawsuit seeking significant monetary damages may have a material adverse effect on the Company's business and financial condition.

Substantially all of Merit's products are backed by a limited warranty for returns due to defects in quality and workmanship. Merit maintains a reserve for these future returned products, but the actual costs of such returns may significantly exceed the reserve, which could have a material adverse effect on the Company's financial condition.

Termination of relationships with the Company's suppliers, or failure of such suppliers to perform, could disrupt the Company's business.

Merit relies on raw materials, component parts, finished products, and services supplied by outside third parties in connection with its business. For example, substantially all of the Company's products are sterilized by two entities. In addition, some of the Company's products are manufactured or assembled by third parties. If a supplier of significant raw materials, component parts, finished goods or services were to terminate its relationship with the Company, or otherwise cease supplying raw materials, component parts,

finished goods or services consistent with past practice, the Company's ability to meet its obligations to its end customers may be disrupted. A disruption with respect to numerous products, or with respect to a few significant products, could have a material adverse effect on the Company's business and financial condition.

The Company may be unable to compete in its markets, particularly if there is a significant change in relevant practices and technology.

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The market for each of the Company's existing and potential products is highly competitive. The Company faces competition from several companies, many of which are larger, better established and have greater financial, technical and other resources and greater market presence than does Merit. Such resources and market presence may enable the Company's competition to more effectively market competing products or to market competing products at reduced prices in order to gain market share.

In addition, Merit's ability to compete successfully is dependent, in part, upon the Company's ability to respond effectively to changes in technology and to develop and market new products which achieve significant market acceptance. Competing companies with substantially greater resources than the Company are actively engaged in research and development of diagnostic and interventional methods, treatments and procedures that could limit the market for the Company's products and eventually make certain products obsolete. A reduction in the demand for a significant number of the Company's products, or a few key products, could have a material adverse effect on the Company's business and financial condition.

The Company may be unable to protect its proprietary technology or may infringe on the proprietary technology of others.

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The Company's ability to remain competitive is dependent, in part, upon its ability to prevent other companies from using its proprietary technology incorporated into its products. The Company seeks to protect its technology through a combination of patents and trade secrets, as well as license, proprietary know-how and confidentiality agreements. The Company may be unable, however, to prevent others from using its proprietary information, or continue to use such information itself, for numerous reasons, including the following:

- Merit's issued patents may not be sufficiently broad to prevent others from copying its proprietary technologies;
- Merit's issued patents may be challenged by third parties and deemed to be overbroad or unenforceable;
- Merit's products may infringe on the patents of others, requiring it to alter or discontinue its manufacture or sale of such products;
- Costs associated with seeking enforcement of Merit's patents against infringement, or defending itself against allegations of infringement, may be significant;
- Merit's pending patent applications may not be granted for various reasons, including overbreadth or conflict with an existing patent; and
- Other persons may independently develop, or have developed, similar or superior technologies.

A significant adverse change in, or failure to comply with, governing regulations could adversely affect the Company's business.

Substantially all of the Company's products are "devices," as defined in the Federal Food, Drug and Cosmetic Act, and the manufacture, distribution, record keeping, labeling and advertisement of Merit's products is subject to regulation by the FDA in the United States and its equivalent regulatory agencies in various foreign countries in which Merit's products are manufactured, distributed, labeled, offered and sold. Further, the Company is subject to continual review and periodic inspections at its current facilities with respect to the FDA's Good Manufacturing Practices and similar requirements of foreign countries. Merit's business and financial condition could be adversely affected if it is found to be out of compliance with governing regulations. In addition, if such regulations are amended to become more restrictive and costly to comply with, the costs of compliance could adversely affect the Company's business and financial condition.

A significant portion of the Company's revenues are derived from a few products and procedures.

A significant portion of the Company's revenues are attributable to sales of its inflation devices. During the year ended December 31, 2003, sales of the Company's inflation devices (including inflation devices sold in custom kits) accounted for approximately 33% of the Company's total revenues. Any material decline in market demand for the Company's inflation devices could have an adverse effect on the Company's business and financial condition.

In addition, the products that account for a majority of the Company's historical revenues are designed for use in connection with a few related medical procedures, including angioplasty and stent placement procedures. If subsequent developments in medical technology or drug therapy make such procedures obsolete, or alter the methodology of such procedures so as to eliminate the usefulness of the Company's products, the Company may experience a material decrease in demand for its products and experience deteriorating financial performance.

The Company is subject to work stoppage, transportation and related risks.

Merit manufactures its products at various locations in the United States and in Ireland and sells its products throughout the United States, in Europe and in other parts of the world. The Company depends on third-party transportation companies to deliver supplies necessary to manufacture Merit products from vendors to the Company's various facilities and to move Merit products to customers, operating divisions and other subsidiaries located within and outside the United States. Merit's manufacturing operations, and the operations of the transportation companies on which the Company depends, may be adversely affected by natural disasters and significant human events, such as a war, terrorist attack, riot, strike, slowdown or similar event. Any disruption in the Company's manufacturing or transportation could materially adversely affect the Company's ability to meet customer demands or its operations generally.

Limits on reimbursement imposed by governmental and other programs may adversely affect the Company's business.

The cost of a significant portion of medical care is funded by governmental, social security or other insurance programs. Limits on reimbursement imposed by such programs may adversely affect the ability of hospitals and others to purchase Merit products. In addition, limitations on reimbursement for procedures which utilize Merit products could adversely affect sales.

Fluctuations in Euro exchange rates may negatively impact the Company's financial results.

Fluctuations in the rate of exchange between the Euro and the U.S. Dollar could have a negative impact on the Company's margins and financial results. For example, during 2003, the exchange rate between the Euro and the U.S. Dollar resulted in an increase of the Company's gross revenues of $2.4 million and 0.3% in gross profit.

For the year ended December 31, 2003, approximately $13 million, or 9.6%, of Merit's sales were denominated in Euros. If the rate of exchange between the Euro and the U.S. Dollar declines, the Company may not be able to increase the prices it charges its European customers for products whose prices are denominated in Euros. Furthermore, the Company may be unable or elect not to enter into hedging transactions which could mitigate the effect of declining exchange rates. As a result, as the rate of exchange between Euros and the U.S. Dollars declines, the Company's financial results may be negatively impacted.

The Company may be unable to successfully manage growth, particularly if accomplished through acquisitions.

Successful implementation of Merit's business strategy will require that the Company effectively manage any associated growth. To manage growth effectively, the Company's management will need to continue to implement changes in certain aspects of the Company's business, to enhance the Company's information systems and operations to respond to increased demand, to attract and retain qualified personnel and to develop, train and manage an increasing number of management-level and other employees. Growth could place an increasing strain on the Company's management, financial, product design, marketing, distribution and other resources, and the Company could experience operating difficulties. Any failure to manage growth effectively could have a material adverse effect on the Company's results of operations and financial condition.

To the extent that the Company grows through acquisition, it will face the additional challenges of integrating its current operations, culture, informational management systems and other characteristics with that of the acquired entity. The Company may incur significant expenses in connection with negotiating and consummating one or more transactions, and it may inherit certain liabilities in connection with the acquisition as a result of its failure to conduct adequate due diligence or otherwise. In addition, the Company may not realize competitive advantages, synergies or other benefits anticipated in connection with such acquisition(s). If the Company does not adequately identify targets for, or manage issues related to our future acquisitions, such acquisitions may have a negative adverse effect on the Company's business and financial results.

The market price of the Company's Common Stock has been, and may continue to be, volatile.

The market price of Merit's common stock (the "Common Stock") has been, and may continue to be, highly volatile for various reasons, including the following:

- Merit's announcement of new products or technical innovations, or similar announcements by its competitors;
- Development of new procedures that use, or do not use, Merit's technology;
- Quarter-to-quarter variances in the Company's financial results;
- Claims involving potential infringement of patents and other intellectual property rights;

- Analyst and other projections or recommendations regarding the Common Stock or medical technology stocks generally;

- Any restatement of the Company's financial statements or any investigation into the Company by the SEC or another regulatory authority; and

- A general decline, or rise, of stock prices in the capital markets generally.

The Company is dependent upon key personnel.

The Company's continued success is dependent on key management personnel, including Fred P. Lampropoulos, the Company's Chairman of the Board, President and Chief Executive Officer. Mr. Lampropoulos is not subject to any agreement prohibiting his departure, and the Company does not maintain key man life insurance on his life. Mr. Lampropoulos announced his candidacy for Governor of Utah in January 2004 and is actively campaigning as one of several candidates vying for that seat. The loss of Mr. Lampropoulos, or of certain other key management personnel, could materially adversely affect the Company's business and operations. The Company's success also depends, among other factors, on the successful recruitment and retention of key operations, manufacturing, sales and other personnel.

Item 2. Properties.

The Company is the owner of approximately 22 acres of real property situated in the City of South Jordan, Utah, surrounding an additional 10 acres of leased real property on which is located the Company's 175,000 square foot principal office and manufacturing facility. The Company sold the 10-acre site to an unrelated developer in order to facilitate construction of such facility and entered into a 25-year lease agreement (beginning in 1995) to finance the new facility. Monthly lease payments are approximately $122,000. The Company also holds an option to purchase the facility, exercisable at market value after 10 years and 25 years. The facility was constructed to the Company's specifications and the Company estimates that it is presently at or near full capacity. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources".

The Company owns a building of approximately 26,500 square feet with approximately three acres of land, in Galway, County Galway, Republic of Ireland, as its principal office and manufacturing facility for European operations. Of the three acres of land, the Company added 1.6 acres in January 2003 in preparation for a facility expansion which started in late 2003. The existing Galway facility is used as the administrative headquarters to support the Company's European direct sales force. The facility also houses a research and development team, which has developed a new diagnostic guide wire, 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 and the BASIX(R) inflation device. In 1998, the Company began the manufacture of the Company's hemostasis valve products in Ireland. Toward the end of 2001, the Company finished an R&D project and began manufacturing a new diagnostic guide wire. The Company's Galway property has been improved and equipped on terms favorable to the Company in connection with economic development incentives and grants provided by the Irish Government.

The Company leases a manufacturing facility of approximately 50,000 square feet comprised of seven units, located in Murray, Utah. The Murray facility is used for production of several of the Company's well-established products. The leases related to three of the these units at the Murray facility

will expire in 2004 and leases related to four of these units will expire in 2007. The aggregate monthly lease payments on our Murray facilities are approximately $29,000. The Company also leases 8,500 square feet of manufacturing and office space located in Santa Clara, California for the production of sensors. The lease runs through September 2004 at a monthly cost of approximately $18,000. The Company does not plan to renew its Santa Clara, California lease as it currently intends to relocate its sensor operations to a new facility being built in South Jordan, Utah scheduled for completion in 2005.

In August 1999, the Company purchased the operating assets and product lines of Mallinckrodt's Angleton, Texas division, including approximately 19 acres of land and a 75,000 square foot building.

The Company believes that its existing and proposed facilities will be generally be adequate for its present and future anticipated level of operations.

Item 3. Legal Proceedings.

In the course of conducting its business operations, the Company is, from time to time, involved in litigation and other disputes. Management does not currently anticipate that any pending litigation or dispute will have a materially adverse effect on the Company's operations.

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 year ended December 31, 2003.

PART II

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

MARKET PRICE FOR THE COMMON STOCK

The Common Stock is traded on the NASDAQ National Market System under the symbol "MMSI." The following table sets forth high and low closing sale price for the Common Stock for the periods indicated.

| Quarter Ended | High* | Low* |
|---|---|---|
| March 31, 2002 | $ 9.88 | $ 6.28 |
| June 30, 2002 | $ 11.88 | $ 8.21 |
| September 30, 2002 | $ 12.06 | $ 8.72 |
| December 31, 2002 | $ 13.95 | $ 10.28 |
| March 31, 2003 | $ 11.86 | $ 9.14 |
| June 30, 2003 | $ 12.30 | $ 10.08 |
| September 30, 2003 | $ 18.00 | $ 10.92 |
| December 31, 2003 | $ 24.00 | $ 16.17 |

* Effective as of April 12, 2002, the Company effected a 5 for 4 forward stock split of the Common Stock by means of a stock split of one additional share of Common Stock for each four shares of Common Stock outstanding. Also, on August 15, 2003, and December 3, 2003, the Company effected a 4 for 3 forward stock split of the Common Stock by means of a stock split of one additional share of Common Stock for each three shares of Common Stock outstanding. Data related to periods prior to the effective dates of the three stock splits have been adjusted to reflect the terms of such stock splits.

OUTSTANDING SHARES AND NUMBER OF SHAREHOLDERS

As of March 10, 2004, the number of shares of Common Stock outstanding was 26,095,533, held by approximately 214 shareholders of record, not including shareholders whose shares are held in securities position listings.

DIVIDENDS

The Company has never declared or paid cash dividends on the Common Stock. The Company presently intends to retain any future earnings for use in its business and, therefore, does not anticipate paying any dividends on the Common Stock in the foreseeable future. In addition, the Company's revolving line of credit contains covenants prohibiting the declaration and distribution of a cash dividend at any time prior to the termination of such line of credit.
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SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table contains information regarding the Company's equity compensation plans as of December 31, 2003.

| Plan category | Number of securities to be issued upon exercise of outstanding options, warrants and rights (a) | Weighted-average exercise price of outstanding options, warrants and rights (b) | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a) ) (c) |
|---|---|---|---|
| Equity compensation plans approved by security holders | 4,188,474 (1)(3) | $7.63 | 557,357(2)(3) |
| Equity compensation plans not approved by security holders | 0 | | 0 |
| Total | 4,188,474 | | 557,357 |

(1) Consists of 4,188,474 shares subject to the options granted under the Company's 1999 Omnibus Stock Incentive Plan.

(2) Consists of 557,357 shares available to be issued under the Company's Employee Stock Purchase Plans.

(3) See Note 8 to the Company's consolidated financial statements set forth in Item 8 of this report for additional information regarding these plans.

Item 6. Selected Financial Data (In thousands except share data)

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2003 | 2002 | 2001 | 2000 | 1999 |
| Operating Data: | | | | | |
| Net Sales | $ 135,954 | $ 116,227 | $ 104,036 | $ 91,448 | $ 77,960 |
| Cost of Sales | 75,230 | 67,712 | 65,938 | 60,824 | 47,918 |
| Gross Profit | 60,724 | 48,515 | 38,098 | 30,624 | 30,042 |
| Selling, General and Administrative Expenses | 30,468 | 27,732 | 24,040 | 23,300 | 20,407 |
| Research and Development Expenses | 4,627 | 4,008 | 4,118 | 3,864 | 3,618 |
| Severance Costs | -- | -- | -- | 331 | -- |
| Income from Operations | 25,629 | 16,775 | 9,940 | 3,129 | 6,017 |
| Other Expense (Income) | (411) | 13 | 938 | 2,355 | 1,256 |
| Gain on Sale of Land | (508) | -- | (786) | -- | -- |
| Litigation Settlement | (475) | -- | -- | -- | -- |
| Income Before Income Tax Expense | 27,023 | 16,762 | 9,788 | 774 | 4,761 |
| Income Tax Benefit (Expense) | (9,728) | (5,452) | (3,052) | 53 | (1,454) |
| Minority Interest in Subsidiary | -- | -- | -- | -- | (81) |
| Net Income | $ 17,295 | $ 11,310 | $ 6,736 | $ 827 | $ 3,226 |
| Net Income Per Share (Diluted) | $ .64 | $ 0.43 | $ 0.28 | $ 0.04 | $ 0.15 |
| Weighted Average Shares Outstanding (Diluted) | 27,034 | 26,238 | 23,876 | 21,836 | 21,015 |
| Balance Sheet Data: | | | | | |
| Working Capital | $ 56,931 | $ 34,582 | $ 26,911 | $ 32,447 | $ 33,934 |
| Total Assets | 107,301 | 78,305 | 66,659 | 71,447 | 72,360 |
| Long-Term Debt | 0 | 17 | 5,727 | 24,102 | 27,817 |
| Stockholders' Equity | $ 88,243 | $ 63,399 | $ 47,658 | $ 34,773 | $ 32,690 |

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

OVERVIEW

During 2003 Merit experienced its most successful year ever in terms of revenue and profitability. Not only did the Company's revenues grow by 17% during 2003, but virtually every area of the Company's financial performance improved in 2003, including net income, which increased 53% over the year ended December 31, 2002 (previously the year in which the Company had achieved its highest level of net income).

Gross margins as a percentage of sales improved 300 basis points during the year ended December 31, 2003, compared to 2002, a significant contribution to the growth in income during 2003 over 2002. Inventory turns improved during the twelve months preceding December 31, 2003 to 3.8 times per year from 3.4 times per year for the twelve months preceding December 31, 2002.

The Company's productivity increased to over $118,000 of sales per employee for the year ended December 31, 2003, up 8% from the previous year. Higher employee productivity, along with Merit's upgraded management information systems and new incentive pay system, worked together to make the Company more productive and profitable.

The Company's financial condition strengthened during 2003 as the Company's cash position rose to $30.2 million, compared to $9.7 million in 2002, an increase of 212%. Accounts receivable days outstanding improved during the twelve months ending December 31, 2003 to 44 days from 49 days for the twelve months ending December 31, 2002.

The Company anticipates that it will make significant investments in new manufacturing space in 2004. The Company has announced plans to expand its South Jordan, Utah facility by approximately 180,000 square feet, an increase of approximately 103% and its Galway, Ireland facility by approximately 40,000 square feet, an increase of approximately 151%. Construction of these facilities is needed to expand Merit's manufacturing capacity to meet current and future demand of the Company's products as well as a consolidation to South Jordan, Utah of the Company's Murray, Utah facility (56,000 square feet) and its Merit Sensor System, Inc., wafer fab facility (8,500 square feet) from Santa Clara, California.

Merit's management continues to leverage long-term investments in: (1) product breadth, quality and innovation (2) direct sales forces in the United States and Europe and (3) quality systems and facilities. Management believes there are many more opportunities for growth within the Company in addition to the continued growth of the markets in which the Company's, products are sold. Furthermore, management believes market acceptance of the Company's new and existing products, if achieved, will further enhance and leverage the position Merit has attained.

RESULTS OF OPERATIONS

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

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Sales | 100.0% | 100.0% | 100.0% |
| Gross margin | 44.7 | 41.7 | 36.6 |
| Selling, general and administrative | 22.4 | 23.9 | 23.1 |
| Research and development | 3.4 | 3.4 | 4.0 |
| Income from operations | 18.9 | 14.4 | 9.6 |
| Income before income tax expense | 19.9 | 14.4 | 9.4 |
| Net income | 12.7 | 9.7 | 6.5 |

Sales increased by $19.7 million, or 17%, in 2003, compared to an increase of $12.2 million, or 11.7%, in 2002, and an increase of $12.6 million, or 13.8%, in 2001. The increase in sales for 2003 resulted primarily from a 19% increase in stand-alone product revenues, an 18% increase in custom kit revenues, a 17% increase in inflation device revenues, and a 9% increase catheter product revenues. The Company's revenues increased notwithstanding the fact that the markets for many of the Company's products are experiencing slight pricing declines; therefore substantially all of the increase in the Company's revenues was attributable to increased unit sales, except for an increase in the exchange rate between the EURO and the U.S. Dollar which increased sales by 1.8% in 2003 compared to 2002. Unit growth in 2003 over 2002 was the result of procedural growth rate of approximately seven to nine percent, introduction of new products which accounted for growth of approximately three to four percent, with the remainder of unit growth coming from market share gains. International sales in 2003 were approximately $34.3 million, or 25% of total sales, compared to approximately $27.1 million, or 23% of total sales, in 2002, and approximately $23.8 million, or 23% of total sales, in 2001. These increases were primarily a result of greater acceptance of the Company's products in other international markets, ongoing growth in European direct sales, and increased sales related to improvement in the exchange rate between the EURO and the U.S. Dollar, compared to 2002. Direct sales in France, Germany, the U.K., Belgium, the Netherlands and Ireland were $15.6 million, $12.3 million and $10.6 million in 2003, 2002 and 2001, respectively.

Gross profit as a percentage of sales was 44.7%, 41.7%, and 36.6% in 2003, 2002, and 2001, respectively. The increase in the gross margin percentage in 2003 over 2002 was favorably effected by an increase in efficiency and productivity gains achieved by the Company's operations groups, and an increase of the exchange rate of the EURO against the U.S. Dollar when compared to the same period in 2002, resulting in an increase in gross profit of 0.3%. The Company has also reduced the material costs from some of its principal vendors. The Company is operating in a gradually declining price market. There is also a general cost-increasing manufacturing environment. However, management presently anticipates that the Company will maintain or slightly improve 2004 gross margins over those achieved in 2003.

Selling, general and administrative expenses increased $2.7 million, or 9.9%, in 2003 over 2002 and $3.7 million, or 15.4%, in 2002 over 2001. These additional expenditures for 2003 were related to increases in commissions paid commensurate with sales growth, costs of expanding the Company's direct sales force in the U.S. and Europe, and an increase of the exchange rate of the EURO against the U.S. Dollar when compared to the same period in 2002, resulting in an increase in selling expenses for the Company's direct sales force in Europe. Total selling, general and administrative expenses decreased as a percentage of sales to 22.4 % in 2003 from 23.9% in 2002.

Research and development expenses for 2003 were $4.6 million, an increase of 15.4%, compared to $4.0 million for 2002, a decrease of 2.7% compared to $4.1 million in 2001. This slight increase in R&D during 2003 related primarily to head count additions and indirect costs to support catheter development. The decline in R&D during 2002 was primarily a result of the completion of R&D activities in Ireland relating to the Company's guide wire product line and the transition of much of the Company's R&D resources to manufacturing of the new diagnostic guide wire product line. Research and development costs as a percentage of sales were 3.4%, 3.4% and 4.0% for 2003, 2002 and 2001, respectively. Management believes that the development of ten to twelve projects at any given time is an appropriate level of R&D for the Company, and is likely to provide six to eight new products a year through R&D, regulatory, manufacturing, marketing and sales introduction.

The Company's effective tax rate for 2003 was 36%, up from 32.5% in 2002 and 31.2% in 2001, mostly because of lower taxable income in 2003 for the

Company's Irish operations, which are taxed at a lower rate than the U.S. operations. The change in taxable income for Ireland from 2003 to 2002 was the result of increased costs associated with the development of a new product which is scheduled to be released during 2005.

Other income was $1.4 million for 2003, compared to other expense of $13,209 and $151,231 for 2002 and 2001, respectively. The generation of other income during 2003 was result of a gain on sale of land adjacent to our South Jordan, Utah facility of $507,928, and the settlement of a legal dispute of $475,000. Other income for 2003 was also effected by an increase in interest income of $288,654 and a decrease in interest expense of $84,145, when compared to the same period in 2002.

Net income for 2003 was $17.3 million, an increase of 52.9%, compared to $11.3 million for 2002. Net income for 2001 was $6.7 million for 2001. Net income for 2003 was favorably effected by higher gross profits, lower selling, general and administrative expenses as a percentage of sales and an increase in other income.

Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets. Under SFAS No. 142, the Company no longer amortizes goodwill from business acquisitions and reviews annually the impairment of goodwill, or more frequently if impairment indicators arise. The Company completed its initial testing of goodwill as of January 1, 2002 and determined that there was no impairment. The Company has elected to perform its annual testing of goodwill impairment as of July 1 of the applicable fiscal year. As of July 1, 2003, the Company updated its testing of goodwill for impairment and determined that there was no impairment. The unamortized amount of goodwill at December 31, 2003 was approximately $4.8 million.

With the adoption of SFAS No. 142, the Company reassessed the useful lives and residual values of all acquired intangible assets to make any necessary amortization period adjustments. Based on that assessment, no adjustments were made to the amortization period or residual values of other intangible assets.

Other recently adopted or issued financial accounting standards are as follows, SFAS No. 144, Accounting for the impairment or Disposal of Long-Lived Assets, SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, SFAS No.146, Accounting for Costs Associated with Exit or Disposal Activities, SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure. See discussion of the effect of these accounting standards in Note 1 of the Company's consolidated financial statements set forth in Item 8 of this report.

LIQUIDITY AND CAPITAL RESOURCES

Capital Commitments

The following table summarizes the Company's capital commitments and contractual obligations as of December 31, 2003, including long-term debt, operating lease payments, and office lease payments, as well as the future periods in which such payments are currently anticipated to become due:

| | Payment due by period (in thousands) | | | | |
|---|---|---|---|---|---|
| Contractual Obligations | Total | Less than 1 Year | 1-3 Years | 4-5 Years | After 5 Years |
| Long-term debt | $ 17 | $ 17 | -- | -- | -- |
| Operating leases | 26,423 | 2,446 | $ 4,257 | $ 3,478 | $16,242 |
| Royalty obligations | 2,475 | 525 | 1,050 | 900 | -- |
| Total contractual cash obligations | $28,915 | $ 2,988 | $ 5,307 | $ 4,378 | $16,242 |

Additional information regarding the Company's capital commitments and contractual obligations, including royalty payments, is contained in Notes 5, 6 and 10 of the Notes to the Company's Consolidated Financial Statements, set forth in Item 8..

As of December 31, 2003, the Company's working capital was $56.9 million, an increase of 64.5%, from the Company's net working capital on December 31, 2002 of $34.6 million. As of December 31, 2003, the Company had a current ratio of 4.9 to 1, compared to 4.0 to 1, as of December 31, 2002. The increase in working capital during 2003 was primarily due to an increase in the Company's cash balance during 2003 of $20.5 million. The Company had $0 outstanding under its line of credit at December 31, 2003. Merit has financed leasehold improvements and equipment acquisitions through secured notes payable and capital lease arrangements with an outstanding balance of $16,693 at December 31, 2003. For the year ended December 31, 2003, the Company generated cash from operations in the amount of $24.8 million, the most in the history of the Company.

Historically, the Company has incurred significant expenses in connection with product development and introduction of new products. Substantial capital has also been required to finance the increase in our receivables and inventories associated with our increased sales. During 2004, substantial funds will be needed to construct additional facilities in South Jordan, Utah and in Galway, Ireland. Construction of these facilities is currently estimated to cost approximately $26 million in the aggregate. It is anticipated that an additional $5 million, in excess of the Company's 2003 annual capital expenditures, will be spent on a finished good handling system and other production equipment for these new facilities. Our principal source of funding for these and other expenses has been cash generated from operations, sale of equity, cash from loans on equipment and bank lines of credit. Management believes that its present sources of liquidity and capital are adequate for the current operations.

Critical Accounting Policies and Estimates

The SEC has requested that all registrants address their most critical accounting policies. The SEC has indicated that a "critical accounting policy"

is one which is both important to the representation of the Company's financial condition and results and requires management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. The Company bases estimates on past experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The following are the Company's most critical accounting policies:

Inventory Obsolescence Reserve: The Company writes down its inventory for estimated obsolescence for unmarketable and/or slow moving products that may expire prior to being sold. If market conditions become less favorable than those projected by management, additional inventory write-downs may be required.

Allowance for Doubtful Accounts: The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of customers to make required payments. The allowance is based upon historical experience and a review of individual customer balances. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Stock-Based Compensation: The Company accounts for its stock compensation arrangements under the provisions of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, (APB 25) and intends to continue to do so. Accordingly, no compensation cost has been recognized for its stock compensation arrangements. If the compensation cost for the Company's compensation plans had been determined consistent with Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation, the Company's net income and net income per common and common share equivalent would have changed to the pro forma amounts indicated below:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Net income, as reported | $ 17,295,398 | $ 11,310,030 | $ 6,735,978 |
| Compensation cost under fair value-based accounting method, net of tax | 2,957,570 | 1,436,313 | 1,356,742 |
| Net income, pro forma | 14,337,828 | 9,873,717 | 5,379,236 |
| Net income per common share: | | | |
| Basic: | | | |
| As reported | $ 0.68 | $ 0.47 | $ 0.30 |
| Pro forma | 0.56 | 0.41 | 0.24 |
| Diluted: | | | |
| As reported | 0.64 | 0.43 | 0.28 |
| Pro forma | 0.53 | 0.38 | 0.23 |

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 2003, 2002, and 2001: dividend yield of 0%; expected volatility of 63.81%, 63.24%, and 63.48% for 2003, 2002, and 2001, respectively; risk-free interest rates ranging from 2.32% to 6.71%; and expected lives ranging from 2.33 to 4.98 years.

## Item 7A. Quantitative and Qualitative Disclosure About Market Risk

The Company's principal market risk relates to changes in the value of the Euro relative to the value of the U.S. Dollar. The Company's Consolidated Financial Statements are denominated in, and the Company's principal currency is, the U.S. Dollar. A portion of the Company's revenues in 2003 ($13 million, representing approximately 9.6% of aggregate revenues) came from sales that were denominated in Euros. Certain of the Company's expenses are also denominated in Euros, partially offsetting any risk associated with fluctuations of the Euro/Dollar exchange rate. Because of the Company's Euro-denominated revenues and expenses, in a year in which the Company's Euro-denominated revenues exceed its Euro-based expenses, the value of such Euro-denominated net income increases if the value of the Euro increases relative to the value of the U.S. Dollar, and decreases if the value of the Euro decreases relative to the value of the U. S. Dollar. During 2003, the exchange rate between the Euro and the U.S. dollar resulted in an increase of the Company's gross revenues of $2.4 million and 0.3% in gross profit.

At December 31, 2003, the Company had a net exposure (representing the difference between Euro denominated receivables and Euro denominated payables) of approximately $3 million. In order to partially offset such risk, at December 31, 2003, the Company entered into a 30 day forward EURO hedge contract. The Company enters into similar hedging transactions various times during the year to partially offset exchange rate risks it bears throughout the year. The Company does not purchase or hold derivative financial instruments for speculative or trading purposes. During the year ended December 31, 2003, the Company experienced a net loss of $89,708 on hedging transactions it executed during 2003 in an effort to limit its exposure to fluctuations in the Euro/Dollar exchange rate.

As of December 31, 2003, the Company had no variable rate debt. As long as the Company does not have variable rate debt, the Company's interest expense would not be affected by changes in interest rates.

Item 8. Financial Statement and Supplement Data

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Merit Medical Systems, Inc. and subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2003. Our audits also included the financial statement schedule listed in the Table of Contents at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Notes 1 and 3, the Company adopted Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, on January 1, 2002.

/s/ DELOITTE & TOUCHE LLP
- ------------------------------
DELOITTE & TOUCHE LLP
Salt Lake City, Utah
February 27, 2004

MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2003 AND 2002

| ASSETS | 2003 | 2002 |
|---|---|---|
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 30,204,083 | $ 9,683,578 |
| Short-term investments | 572,988 | 217,451 |
| Trade receivables--net of allowance for uncollectible accounts: 2003--$749,003; 2002--$476,294 | 17,728,457 | 15,247,892 |
| Other receivables | 374,644 | 1,209,804 |
| Employee and related party receivables | 267,288 | 299,751 |
| Inventories | 21,269,380 | 18,699,217 |
| Prepaid expenses and other assets | 823,221 | 667,151 |
| Deferred income tax assets | 220,625 | 143,265 |
| Total current assets | 71,460,686 | 46,168,109 |
| PROPERTY AND EQUIPMENT: | | |
| Land | 2,740,394 | 2,034,522 |
| Building | 5,268,260 | 5,118,683 |
| Manufacturing equipment | 29,480,421 | 25,577,837 |
| Furniture and fixtures | 11,953,358 | 10,823,852 |
| Leasehold improvements | 4,615,947 | 4,345,620 |
| Automobiles | 87,536 | 87,536 |
| Construction-in-progress | 4,886,530 | 3,008,734 |
| Total | 59,032,446 | 50,996,784 |
| Less accumulated depreciation and amortization | (29,835,769) | (25,584,648) |
| Property and equipment--net | 29,196,677 | 25,412,136 |
| OTHER ASSETS: | | |
| Patents and trademarks--net of accumulated amortization: 2003--$1,311,918; 2002--$1,153,965 | 1,846,392 | 1,927,160 |
| Goodwill | 4,764,596 | 4,764,596 |
| Deposits | 32,163 | 33,213 |
| Total other assets | 6,643,151 | 6,724,969 |
| TOTAL ASSETS | $ 107,300,514 | $ 78,305,214 |

(Continued)

MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2003 AND 2002

| LIABILITIES AND STOCKHOLDERS' EQUITY | 2003 | 2002 |
|---|---|---|
| CURRENT LIABILITIES: | | |
| Current portion of long-term debt | $ 16,693 | $ 400,182 |
| Trade payables | 5,700,491 | 4,121,577 |
| Accrued expenses | 8,567,093 | 6,618,407 |
| Advances from employees | 158,885 | 161,529 |
| Income taxes payable | 86,973 | 284,148 |
| Total current liabilities | 14,530,135 | 11,585,843 |
| DEFERRED INCOME TAX LIABILITIES | 3,020,217 | 2,443,156 |
| LONG-TERM DEBT | -- | 16,693 |
| DEFERRED CREDITS | 1,506,753 | 860,931 |
| Total liabilities | 19,057,105 | 14,906,623 |
| COMMITMENTS AND CONTINGENCIES (Notes 6 and 10) | | |
| STOCKHOLDERS' EQUITY: | | |
| Preferred stock--5,000,000 shares authorized as of December 31, 2003 and 2002, no shares issued | | |
| Common stock--no par value; 50,000,000 shares authorized; 26,002,544 and 24,647,204 shares issued at December 31, 2003 and 2002, respectively | 37,701,629 | 30,265,963 |
| Retained earnings | 50,958,481 | 33,663,083 |
| Accumulated other comprehensive loss | (416,701) | (530,455) |
| Total stockholders' equity | 88,243,409 | 63,398,591 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $ 107,300,514 | $ 78,305,214 |

(Concluded)

See notes to consolidated financial statements.

MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2003, 2002, AND 2001

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| NET SALES | $ 135,953,508 | $ 116,227,201 | $ 104,035,806 |
| COST OF SALES | 75,229,716 | 67,711,728 | 65,938,044 |
| GROSS PROFIT | 60,723,792 | 48,515,473 | 38,097,762 |
| OPERATING EXPENSES: | | | |
| Selling, general, and administrative | 30,467,921 | 27,732,363 | 24,040,297 |
| Research and development | 4,626,459 | 4,007,622 | 4,117,839 |
| Total operating expenses | 35,094,380 | 31,739,985 | 28,158,136 |
| INCOME FROM OPERATIONS | 25,629,412 | 16,775,488 | 9,939,626 |
| OTHER INCOME (EXPENSE): | | | |
| Interest income | 385,596 | 96,942 | 40,530 |
| Interest expense | (9,961) | (94,106) | (978,009) |
| Miscellaneous income (expense) | 1,018,334 | (16,045) | 786,248 |
| Other income (expense)--net | 1,393,969 | (13,209) | (151,231) |
| INCOME BEFORE INCOME TAXES | 27,023,381 | 16,762,279 | 9,788,395 |
| INCOME TAX EXPENSE | 9,727,983 | 5,452,249 | 3,052,417 |
| NET INCOME | $ 17,295,398 | $ 11,310,030 | $ 6,735,978 |
| EARNINGS PER COMMON SHARE: | | | |
| Basic | $ .68 | $ .47 | $ .30 |
| Diluted | $ .64 | $ .43 | $ .28 |
| AVERAGE COMMON SHARES: | | | |
| Basic | 25,401,445 | 24,226,100 | 22,537,975 |
| Diluted | 27,033,964 | 26,238,450 | 23,874,818 |

See notes to consolidated financial statements.

MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2003, 2002, AND 2001 [split table]

| | Total | Common Stock | | Accumulated Other Compre-hensive Loss | Retained Earnings |
|---|---|---|---|---|---|
| | | Shares | Amount | | |
| BALANCE--January 1, 2001 | $ 34,772,702 | 21,633,911 | $ 19,779,765 | $ (624,138) | $ 15,617,075 |
| Comprehensive income: | | | | | |
| Net income | 6,735,978 | -- | -- | -- | 6,735,978 |
| Other comprehensive loss-- | | | | | |
| Foreign currency translation adjustment (net of tax) | (28,802) | -- | -- | (28,802) | -- |
| Comprehensive income | 6,707,176 | -- | -- | -- | -- |
| Tax benefit attributable to appreciation of common stock options exercised | 2,514,392 | -- | 2,514,392 | -- | -- |
| Deferred compensation | (37,084) | (13,244) | (37,084) | -- | -- |
| Issuance of common stock under Employee Stock Purchase Plans | 257,702 | 98,843 | 257,702 | -- | -- |
| Options and warrants exercised | 5,019,939 | 2,302,843 | 5,019,939 | -- | -- |
| Shares surrendered in exchange for the payment of payroll tax liabilities | (537,375) | (76,987) | (537,375) | -- | -- |
| Shares surrendered in exchange for the extinguishment of related party receivable | (214,558) | (43,172) | (214,558) | -- | -- |
| Shares surrendered in exchange for the exercise of stock options | (824,486) | (120,823) | (824,486) | -- | -- |
| BALANCE--December 31, 2001 | 47,658,408 | 23,781,371 | 25,958,295 | (652,940) | 22,353,053 |
| Comprehensive income: | | | | | |
| Net income | 11,310,030 | -- | -- | -- | 11,310,030 |
| Other comprehensive income-- | | | | | |
| Foreign currency translation adjustment (net of tax) | 122,485 | -- | -- | 122,485 | -- |
| Comprehensive income | 11,432,515 | -- | -- | -- | -- |
| Tax benefit attributable to appreciation of common stock options exercised | 2,684,444 | -- | 2,684,444 | -- | -- |
| Sale of treasury stock | 142,096 | 13,244 | 142,096 | -- | -- |
| Issuance of common stock under Employee Stock Purchase Plans | 349,622 | 41,984 | 349,622 | -- | -- |
| Options and warrants exercised | 1,927,525 | 876,427 | 1,927,525 | | |
| Shares surrendered in exchange for the payment of payroll tax liabilities | (468,668) | (36,487) | (468,668) | -- | -- |
| Shares surrendered in exchange for the exercise of stock options | (327,351) | (29,335) | (327,351) | -- | -- |

(Continued)

MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2003, 2002, AND 2001 [continuation of table]

| | Total | Common Stock | | Accumulated Other Comprehensive Loss | Retained Earnings |
|---|---|---|---|---|---|
| | | Shares | Amount | | |
| BALANCE--December 31, 2002 | 63,398,591 | 24,647,204 | 30,265,963 | (530,455) | 33,663,083 |
| Comprehensive income: | | | | | |
| Net income | 17,295,398 | -- | -- | -- | 17,295,398 |
| Other comprehensive income-- | | | | | |
| Foreign currency translation adjustment (net of tax) | 113,754 | -- | -- | 113,754 | -- |
| Comprehensive income | 17,409,152 | | | | |
| Tax benefit attributable to appreciation of common stock options exercised | 4,740,850 | -- | 4,740,850 | -- | -- |
| Sale of treasury stock | (41) | -- | (41) | -- | -- |
| Issuance of common stock under Employee Stock Purchase Plans | 304,958 | 32,592 | 304,958 | -- | -- |
| Options and warrants exercised | 3,718,839 | 1,407,855 | 3,718,839 | -- | -- |
| Shares surrendered in exchange for the payment of payroll tax liabilities | (780,606) | (49,173) | (780,606) | -- | -- |
| Shares surrendered in exchange for the exercise of stock options | (548,334) | (35,934) | (548,334) | -- | -- |
| BALANCE--DECEMBER 31, 2003 | $ 88,243,409 | $ 26,002,544 | $ 37,701,629 | $ (416,701) | $ 50,958,481 |

(Concluded)

See notes to consolidated financial statements.

MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2003, 2002, AND 2001

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net income | $ 17,295,398 | $ 11,310,030 | $ 6,735,978 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 4,485,924 | 4,576,609 | 4,767,588 |
| (Gains) losses on sales and abandonment of property and equipment | (516,603) | 4,022 | (784,729) |
| Write-off of certain patents and trademarks | 25,469 | 391,217 | 93,291 |
| Amortization of deferred credits | (257,746) | (195,472) | (203,131) |
| Deferred income taxes | 429,985 | 1,293,735 | (45,152) |
| Tax benefit attributable to appreciation of common stock options exercised | 4,740,850 | 2,684,444 | 2,514,392 |
| Changes in operating assets and liabilities: | | | |
| Short-term investments | (355,537) | (132,165) | (85,286) |
| Trade receivables | (2,480,565) | (499,871) | (1,512,163) |
| Employee and related party receivables | 537,063 | (32,846) | (40,809) |
| Inventories | (2,570,163) | 2,124,399 | 4,449,812 |
| Prepaid expenses and other assets | (156,070) | (152,364) | 148,315 |
| Other receivables | 330,560 | (1,111,723) | 668,036 |
| Deposits | 1,050 | 1,630 | 6,430 |
| Trade payables | 1,578,916 | (537,718) | (176,222) |
| Accrued expenses | 1,948,686 | 1,800,812 | 1,346,556 |
| Advances from employees | (2,644) | 32,905 | 31,846 |
| Income taxes payable | (197,175) | (202,615) | 453,343 |
| Total adjustments | 7,542,000 | 10,044,999 | 11,632,117 |
| Net cash provided by operating activities | 24,837,398 | 21,355,029 | 18,368,095 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Capital expenditures for: | | | |
| Property and equipment | (8,165,678) | (7,954,191) | (4,091,399) |
| Patents and trademarks | (102,655) | (97,467) | (263,427) |
| Proceeds from the sale of property and equipment | 569,768 | 2,575 | 952,308 |
| Net cash used in investing activities | (7,698,565) | (8,049,083) | (3,402,518) |

(Continued)

MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2003, 2002, AND 2001

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Net payments on revolving credit facility | $ -- | $ (5,115,241) | $(17,884,761) |
| Proceeds from: | | | |
| Issuance of common stock | 2,694,816 | 1,586,140 | 3,915,780 |
| Deferred credits | 903,568 | 128,123 | 175,572 |
| Principal payments on notes payable to financial institutions and capital leases | (400,182) | (793,352) | (1,164,444) |
| Sale (purchase) of treasury stock for deferred compensation | -- | 37,084 | (37,084) |
| Net cash provided by (used in) financing activities | 3,198,202 | (4,157,246) | (14,994,937) |
| EFFECT OF EXCHANGE RATES ON CASH | 183,470 | 193,188 | (41,334) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 20,520,505 | 9,341,888 | (70,694) |
| CASH AND CASH EQUIVALENTS: | | | |
| Beginning of year | 9,683,578 | 341,690 | 412,384 |
| End of year | $ 30,204,083 | $ 9,683,578 | $ 341,690 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION--Cash paid during the year for: | | | |
| Interest (including capitalized interest of approximately $-0-, $17,000, and $105,000 during 2003, 2002, and 2001, respectively) | $ 15,904 | $ 109,002 | $ 1,286,872 |
| Income taxes | $ 4,354,047 | $ 2,396,885 | $ 127,553 |

(Concluded)

MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2003, 2002, AND 2001

SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:

- During 2001, the Company entered into capital lease obligations and notes payable for approximately $271,000 for manufacturing equipment.
- During 2003, 2002, and 2001, options to purchase 49,173, 36,487, and 76,987 shares of the Company's common stock were surrendered in exchange for the Company's recording of payroll tax liabilities in the amount of approximately $780,000, $469,000, and $537,000.
- During 2003, 2002, and 2001, 35,934, 29,335, and 120,823 shares of Company common stock with a value of approximately $548,000, $327,000, and $824,000, respectively, were surrendered in exchange for the exercise of stock options.

See notes to consolidated financial statements.

(Concluded)

MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003, 2002, AND 2001

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 Sensor Systems, Inc. collectively own 100% of Merit Medical Systems LP ("MMSLP"). Combined with its other wholly-owned subsidiary, Merit Medical International, Inc. ("MMI"), Merit, MHI, and Merit Sensor Systems, Inc. collectively own 100% of Merit Services, Inc. ("MSI") (collectively, the "Company"). The Company develops, manufactures, and markets disposable medical products primarily for use in the diagnosis and treatment of cardiovascular disease which is considered to be one segment line of business. The Company manufactures its products in plants located in the United States and in Ireland. The Company has export sales to dealers and has direct sales forces in the United States, and Western Europe (see Note 9).

The consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America. 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 accounting principles generally accepted in the United States of America 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, MSI, MMSLP and Merit Sensor systems, Inc. Intercompany balances and transactions have been eliminated.

Receivables--The allowance for uncollectible accounts receivable is based on the Company's historical bad debt experience and on management's evaluation of collectibility of the individual outstanding balances.

Revenue Recognition--The Company recognizes revenues from product sales when the goods are shipped or delivered depending on when title and risk passes to the customer. Provisions for certain product returns and discounts to customers are provided for as reductions in determining sales in the same period the related sales are recorded.

Inventories--The Company values its inventories at the lower of cost, determined on a first-in, first-out method, or market value. Market value for raw materials is based on replacement costs and, for other inventory classifications, on net realizable value. We review inventories on hand at least quarterly and record provisions for estimated excess, slow moving, and obsolete inventory, as well as inventory with a carrying value in excess of net realizable value. The regular and systematic inventory valuation reviews include a current assessment of future product demand, historical experience, and product expiration.

Income Taxes--The Company utilizes an asset and liability approach for financial accounting and reporting for income taxes. Deferred income taxes are provided for temporary differences in the bases of assets and liabilities as reported for financial statement and income tax purposes.

Intangible Assets--Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 142, Goodwill and Other Intangible Assets. Under SFAS No. 142, the Company no longer amortizes goodwill from business acquisitions and reviews annually the impairment of goodwill, or more frequently if impairment indicators arise. The Company completed its initial testing of goodwill as of January 1, 2002 and determined that there was no impairment. The Company has elected to perform its annual testing of goodwill impairment as of July 1. As of July 1, 2003 and 2002, the Company updated its testing of goodwill for impairment and determined that there was no impairment. The unamortized amount of goodwill at December 31, 2001, was approximately $4.8 million.

With the adoption of SFAS No. 142, the Company reassessed the useful lives and residual values of all acquired intangible assets to make any necessary amortization period adjustments. Based on that assessment, no adjustments were made to the amortization period or residual values of other intangible assets.

Long-Lived Assets--In August 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 supercedes SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of, but retains the requirements relating to recognition and measurement of an impairment loss and resolves certain implementation issues resulting from SFAS No. 121. SFAS No. 144 was adopted by the Company on January 1, 2002 and did not have a material impact on the results of operations or financial condition of the Company.

The Company periodically reviews the carrying amount of its long-lived assets for impairment. An asset is considered impaired when estimated future cash flows are less than the carrying amount of the asset. In the event the carrying amount of such asset is considered not recoverable, the asset is adjusted to its fair value. Fair value is generally determined based on discounted future cash flow. There were no impairments of long-lived assets as of December 31, 2003, 2002, or 2001.

Property and Equipment--Property and equipment is stated at the historical cost of construction or purchase. Construction costs include payroll-related costs, an allocation of general and administrative costs, and interest capitalized during construction. Maintenance and repairs of property and equipment are charged to operations as incurred. Depreciation and amortization are computed using the straight-line method over estimated useful lives as follows:

| | |
|---|---|
| Building | 25 years |
| Automobiles | 4 years |
| Manufacturing equipment | 5 to 12 years |
| Furniture and fixtures | 3 to 10 years |
| Leasehold improvements | 4 to 25 years |

During 2003, the Company recorded a gain from the sale of land of approximately $508,000 which is included in miscellaneous income.

Accrued Expenses--Accrued expenses consist of the following at December 31, 2003 and 2002:

| | December 31, | |
|---|---|---|
| | 2003 | 2002 |
| Payroll taxes | $ 536,135 | $ 317,522 |
| Payroll | 1,146,335 | 940,088 |
| Bonuses | 1,884,868 | 1,445,888 |
| Commissions | 416,062 | 304,943 |
| Vacation | 1,435,862 | 1,025,407 |
| Other accrued expenses | 3,147,831 | 2,584,559 |
| Total | $ 8,567,093 | $ 6,618,407 |

Deferred Credits--Deferred credits consist of grant money received from the Irish government and deferred gains on sales leaseback transactions. Grant money is received for a percentage of expenditures on eligible property and equipment, specific research and development projects, and costs of hiring and training employees. Amounts related to the acquisition of property and equipment are amortized as a reduction of depreciation expense over the lives of the corresponding property. Deferred gains on sales leaseback transactions are amortized as a reduction of rent expense over periods ranging from six to 10 years (see Note 6).

Research and Development--Research and development costs are expensed as incurred.

Stockholders' Equity--On November 19, 2003, the Company's Board of Directors approved a four-for-three stock split of the Company's common stock effective December 3, 2003, for stockholders of record as of

November 28, 2003. On July 31, 2003, the Company's Board of Directors approved a four-for-three stock split of the Company's common stock effective August 15, 2003, for stockholders of record as of August 11, 2003. On March 27, 2002, the Company's Board of Directors approved a five-for-four split of the Company's common stock effective April 11, 2002 for stockholders of record as of April 8, 2002. Additionally, on August 14, 2001, the Company's Board of Directors approved a five-for-four split of the Company's common stock effective August 27, 2001 for stockholders of record as of August 24, 2001. All historical share and per share amounts have been restated to reflect these stock splits.

Earnings per Common Share--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.

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.

Stock-Based Compensation--The Company accounts for its stock compensation arrangements under the provisions of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, (APB 25) and intends to continue to do so. Accordingly, no compensation cost has been recognized for its stock compensation arrangements. If the compensation cost for the Company's compensation plans had been determined consistent with SFAS No. 123, Accounting for Stock-Based Compensation, the Company's net income and net income per common and common share equivalent would have changed to the pro forma amounts indicated below:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Net income, as reported | $ 17,295,398 | $ 11,310,030 | $ 6,735,978 |
| Compensation cost under fair value-based accounting method, net of tax | 2,957,570 | 1,436,313 | 1,356,742 |
| Net income, pro forma | 14,337,828 | 9,873,717 | 5,379,236 |
| Net income per common share: | | | |
| Basic: | | | |
| As reported | $ 0.68 | $ 0.47 | $ 0.30 |
| Pro forma | 0.56 | 0.41 | 0.24 |
| Diluted: | | | |
| As reported | 0.64 | 0.43 | 0.28 |
| Pro forma | 0.53 | 0.38 | 0.23 |

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 2003, 2002, and 2001: dividend yield of 0%; expected volatility of 63.81%, 63.24%, and 63.48% for 2003, 2002, and 2001, respectively; risk-free interest rates ranging from 2.32% to 6.71%; and expected lives ranging from 2.33 to 4.98 years.

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.

Concentration of Credit Risk--Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of temporary cash and cash equivalents and accounts receivable. The Company provides credit, in the normal course of business, primarily to hospitals and independent third-party packers and distributors. The Company performs ongoing credit evaluations of its customers and maintains allowances for potential credit losses.

Foreign Currency Translation Adjustment--The financial statements of the Company's foreign subsidiaries, which are included within MHI, are measured using local currencies as the functional currency, with the exception of Ireland, which uses a U.S. dollar 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 included in accumulated other comprehensive loss as a separate component of stockholders' equity.

Accumulated Other Comprehensive Loss--Accumulated other comprehensive loss consists entirely of foreign currency translation adjustments.

Recently Issued Financial Accounting Standards--In June 2002, SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities, was issued. SFAS No. 146 requires recording costs associated with exit or disposal activities at their fair values when a liability has been incurred. Under previous guidance, certain exit costs were accrued upon management's commitment to an exit plan, which is generally before a liability has been incurred. The Company adopted SFAS No. 146 in the third quarter of 2003. The adoption of SFAS No. 146 did not materially impact the Company's consolidated results of operations, financial position, or cash flow.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation--Transition and Disclosure. SFAS No. 148 amends SFAS No. 123 to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The provisions of SFAS No. 148 are effective for financial statements for fiscal years and interim periods ending after December 15, 2002. The disclosure provisions of SFAS No. 148 have been adopted by the Company (see Stock-Based Compensation above). SFAS No. 148 did not require the Company to change to the fair value based method of accounting for stock-based compensation.

SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liability and Equity ("SFAS No. 150") was issued in May 2003. SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liability and equity in its statement of financial position. SFAS No. 150 became effective for the Company for new or modified financial instruments beginning June 1, 2003, and for existing instruments beginning June 28, 2003. The adoption of SFAS No. 150 did not have a material impact on the Company's Consolidated Financial Statements.

In November 2002, the Financial Accounting Standards Board ("FASB") issued Financial Accounting Standards Board Interpretation No. ("FIN") 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, which requires the guarantor to recognize as a liability the fair value of the obligation at the inception of the guarantee. The disclosure requirements in FIN 45 are effective for financial statements of interim or annual periods ending after December 15, 2002. Management believes the Company has no guarantees that are required to be disclosed in the financial statements. The recognition provisions are to be applied on a prospective basis to guarantees issued after December 31, 2002. The adoption of the recognition provisions of FIN 45 did not have a material impact on the Company's financial statements.

In January 2003, the FASB issued FIN No. 46, Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin ("ARB") No. 51. FIN No. 46, as revised in December 2003, addresses consolidation by business enterprises of variable interest entities. FIN No. 46 applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. FIN No. 46 applies in the first year or interim period ending after December 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. The adoption of FIN No. 46 did not have a material impact on the Company's financial statements.

Short-term Investments--Trading securities are recorded at estimated fair value with unrealized gains and losses included in miscellaneous income. The basis of cost used in determining realized gains and losses is specific identification. The estimated fair value of all securities is determined by quoted market prices.

Deferred Compensation--During 2001, the Company established certain non-qualified deferred compensation plans for eligible participants (the "deferred compensation plans"). The deferred compensation plans permit each participant to defer a portion of their salary until the future. The deferred salary may be invested on behalf of the participant in marketable securities, money market funds or the Company's own stock. However, as the Company is the owner of the invested assets, such assets are reflected in the consolidated balance sheet as cash equivalents and short-term investments at December 31, 2003. The deferred compensation obligation is classified as an accrued expense and adjusted, with a corresponding charge (or credit) to compensation cost, to reflect changes in the fair value of the underlying assets. Because the deferred compensation obligation may be settled by delivery of cash, shares of Company stock, or diversified assets, Company shares acquired are not included in basic earnings per share but are included in the calculation of diluted earnings per share. All shares of treasury stock were sold during the year ended December 31, 2002.

2. INVENTORIES

Inventories consist of the following at December 31, 2003 and 2002:

| | 2003 | 2002 |
|---|---|---|
| Finished goods | $ 11,996,307 | $ 8,348,940 |
| Work-in-process | 3,581,197 | 2,343,501 |
| Raw materials | 5,691,876 | 8,006,776 |
| Total | $ 21,269,380 | $ 18,699,217 |

3. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and intangibles consisted of the following at December 31, 2003.

| | 2003 | 2002 |
|---|---|---|
| Patents, net of accumulated amortization of $710,922 and $594,160, respectively | $1,502,048 | $1,557,006 |
| License agreements, net of accumulated amortization of $419,703 and $378,512, respectively | 171,301 | 212,492 |
| Trademarks (not subject to amortization) | 173,043 | 157,662 |
| Total | $1,846,392 | $1,927,160 |
| Cost in excess of the fair value of assets acquired (goodwill) | $4,764,596 | $4,764,596 |

The following table recociles net income and earnings per share information for the year ended December 31, 2001, for the non-amortization provision of goodwill for SFAS No. 142:

| | Year Ended December 31, 2001 |
|---|---|
| Reported net income | $ 6,735,978 |
| Add back--goodwill amortization, net of tax | 196,589 |
| Adjusted net income | $ 6,932,567 |
| Basic earnings per share: | |
| Reported earnings per common share | $ 0.30 |
| Add back--goodwill amortization, net of tax | 0.01 |
| Adjusted earnings per common share | $ 0.31 |
| Diluted earnings per share: | |
| Reported earnings per common share | $ 0.28 |
| Add back--goodwill amortization, net of tax | 0.01 |
| Adjusted earnings per common share | $ 0.29 |

Aggregate amortization expense for the years ended December 31, 2003, 2002, and 2001 is approximately $158,000, $227,000, and $298,000 respectively.

Estimated amortization expense for the intangible assets for the five succeeding fiscal years is as follows

Estimated amortization expense:

| Year ended December 31: | |
|---|---|
| 2004 | $150,000 |
| 2005 | 165,000 |
| 2006 | 165,000 |
| 2007 | 157,000 |
| 2008 | 155,000 |

4. INCOME TAXES

Deferred income tax assets and liabilities at December 31, 2003 and 2002 consist of the following temporary differences and carryforward items:

| | Current | | Long-Term | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| Deferred income tax assets: | | | | |
| Allowance for uncollectible accounts receivable | $ 299,601 | $ 174,700 | $ -- | $ -- |
| Accrued compensation expense | 627,299 | 509,339 | -- | -- |
| Inventory capitalization for tax purposes | 198,679 | 107,202 | -- | -- |
| Inventory obsolescence reserve | 608,078 | 855,315 | -- | -- |
| Tax credits | -- | -- | 90,000 | 249,328 |
| Net operating losses of subsidiaries | 52,853 | 66,283 | 302,527 | 227,957 |
| Other | 224,560 | 114,846 | 387,839 | 325,117 |
| Total deferred income tax assets | 2,011,070 | 1,827,685 | 780,366 | 802,402 |
| Deferred income tax liabilities: | | | | |
| Prepaid expenses | (1,790,445) | (1,683,603) | -- | -- |
| Property and equipment | -- | -- | (3,598,467) | (3,005,013) |
| Other | -- | (817) | (202,116) | (240,545) |
| Net | $ 220,625 | $ 143,265 | $(3,020,217) | $(2,443,156) |

Income tax expense differs from amounts computed by applying the statutory Federal rate to pretax income as follows:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Computed Federal income tax expense at statutory rate of 35% | $ 9,458,183 | $ 5,866,798 | $ 3,425,938 |
| State income taxes | 811,042 | 384,358 | 159,770 |
| Creation of tax credits | (375,344) | (355,684) | (399,001) |
| Tax benefit of foreign sales corporation | (297,437) | (118,057) | (141,565) |
| Income of subsidiaries recorded at foreign tax rates | (92,913) | (286,424) | (63,517) |
| Other--including the effect of graduated rates | 224,452 | (38,742) | 70,792 |
| Total income tax expense | $ 9,727,983 | $ 5,452,249 | $ 3,052,417 |

The components of the provision for income taxes are as follows:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Current expense: | | | |
| Federal | $ 7,993,940 | $ 3,614,502 | $ 2,608,391 |
| State | 1,199,839 | 435,612 | 370,707 |
| Foreign | 104,219 | 108,400 | 118,471 |
| | 9,297,998 | 4,158,514 | 3,097,569 |
| Deferred expense: | | | |
| Federal | 388,854 | 1,029,364 | (57,070) |
| State | 47,917 | 139,787 | (124,908) |
| Foreign | (6,786) | 124,584 | 136,826 |
| | 429,985 | 1,293,735 | (45,152) |
| Total | $ 9,727,983 | $ 5,452,249 | $ 3,052,417 |

5. REVOLVING CREDIT FACILITY AND LONG-TERM DEBT

Revolving Credit Facility--The Company maintains a long-term revolving credit facility (the Facility) with a bank, which enables the Company to borrow funds at variable interest rates. The credit facility was voluntarily reduced to $500,000 in August 2002. The Facility expires on June 30, 2006. The weighted average interest rate applied to the outstanding balance at December 31, 2001 was 3.42%. Under the terms of the Facility, among other things, the Company is required to maintain a ratio of total liabilities to tangible net worth not to exceed 2.0 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 $25,000,000, and is restricted from paying dividends to shareholders. For the years ended December 31, 2003 and 2002, management of the Company believes the Company was in compliance with all debt covenants. There were no outstanding borrowings on the facility at December 31, 2003 and 2002. The Facility is collateralized by trade receivables, inventories, property and equipment, and intangible assets.

Long-term Debt--Long-term debt consists of the following at December 31, 2003 and 2002:

| | 2003 | 2002 |
|---|---|---|
| Notes payable to financial institutions; payable in monthly installments through 2004, including interest at rates ranging from 6.26% to 8.89%; collateralized by equipment | $ 16,693 | $ 416,875 |
| Less current portion | (16,693) | (400,182) |
| Long-term portion | $ -- | $ 16,693 |

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 five years and have renewal options of one to five years. The terms of the leases for equipment range from five to seven years. Total rental expense on these operating leases and on the Company's manufacturing and office building (see below) for the years ended December 31, 2003, 2002, and 2001 approximated $2,568,000, $2,978,000, and $2,539,000, respectively.

In June 1993, the Company entered into a 25 year lease agreement with a developer for a 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. In connection with this lease agreement, in 1993 the Company 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. In connection with the lease agreement, the Company issued to the developer warrants to purchase 431,836 shares of the Company's common stock at $1.78 per share subject to carrying cost increases of 3% per year ($2.19 as of December 31, 2003). These warrants were exercised in January 2003 with total proceeds to the Company of approximately $950,000.

On December 22, 2000, the Company sold certain of its manufacturing equipment with a net carrying value of approximately $1,210,000 to a financial institution. The Company then entered into a six-year operating lease agreement for the same equipment. The approximate $70,000 gain on sale has been recorded as a deferred credit and is being amortized as a reduction of rental expense over six years.

The future minimum lease payments for operating leases as of December 31, 2003 are as follows:

| | Operating Leases |
|---|---|
| Year ending December 31: | |
| 2004 | $ 2,445,789 |
| 2005 | 2,138,746 |
| 2006 | 2,118,793 |
| 2007 | 2,012,962 |
| 2008 | 1,465,404 |
| Thereafter | 16,241,561 |
| Total minimum lease payments | $26,423,255 |

Irish Government Development Agency Grants--Through December 31, 2003, the Company had entered into several grant agreements with the Irish Government Development Agency of which approximately $-0- remained in receivables at both December 31, 2003 and 2002. 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 2003, 2002, and 2001 in the amounts of approximately $-0-, $163,000, and $36,000, respectively. Grants related to the acquisition of property and equipment purchased in Ireland are amortized as a reduction to depreciation expense over lives corresponding to the depreciable lives of such property. The balance of deferred credits related to such grants as of December 31, 2003 and 2002 are approximately $1,454,000 and $710,000, respectively. During 2003, 2002, and 2001, approximately $229,000, $167,000, and $175,000, respectively, of the deferred credit was amortized as a reduction of operating expenses. There is a commitment to repay the Irish government grants received from them if the Company were to cease production in Ireland within ten years of the receipt of the last government payment. Management does not believe it will ever have to repay any of these grant monies.

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--In the ordinary course of business, the Company is involved in litigation and claims which management believes will not have a materially adverse effect on the Company's financial position or results of operations. During 2003, the Company recorded a gain from the settlement of a legal dispute of approximately $475,000 which is included in miscellaneous income.

7. EARNINGS PER COMMON SHARE (EPS)

The following table sets forth the computation of basic and diluted earnings per common share:

| | Net Income | Shares | Per Share Amount |
|---|---|---|---|
| Year ended December 31, 2003: | | | |
| Basic EPS | $17,295,398 | 25,401,445 | $ 0.68 |
| Effect of dilutive stock options and warrants | -- | 1,632,519 | |
| Diluted EPS | $17,295,398 | 27,033,964 | $ 0.64 |
| Year ended December 31, 2002: | | | |
| Basic EPS | $11,310,030 | 24,226,100 | $ 0.47 |
| Effect of dilutive stock options and warrants | | 2,012,350 | |
| Diluted EPS | $11,310,030 | 26,238,450 | $ 0.43 |
| Year ended December 31, 2001: | | | |
| Basic EPS | $ 6,735,978 | 22,537,975 | $ 0.30 |
| Effect of dilutive stock options and warrants | | 1,336,843 | |
| Diluted EPS | $ 6,735,978 | 23,874,818 | $ 0.28 |

For the years ended December 31, 2003, 2002, and 2001, approximately 449,000, -0-, and 486,000 respectively, of stock options were not included in the computation of diluted earnings per share because they would have been antidilutive.

8. EMPLOYEE STOCK PURCHASE PLAN AND STOCK OPTIONS AND WARRANTS

The Company offers to its employees an Employee Stock Purchase Plan ("ESPP") 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 Company has a qualified and a non-qualified ESPP, which expire on June 30, 2006. The total number of shares available to employees to purchase under the qualified plan is 1,194,444 of which 788,184 have been purchased as of December 31, 2003. The total number of shares available to employees to purchase under the non-qualified plan is 194,444 of which 43,347 have been purchased as of December 31, 2003.

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 11,111,111. 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. Options vest 20% per year over either a 4.5 or 5 year life with contractual lives of 5 and 10 years, respectively. 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 (see Note 6) for the years ended December 31, 2003, 2002, and 2001 are as follows:

| | Options | | Warrants | |
|---|---|---|---|---|
| | Shares | Weighted Average Exercise Price | Shares | Weighted Average Exercise Price |
| 2003: | | | | |
| Granted | 1,532,061 | $ 13.33 | | |
| Exercised | 976,019 | 2.84 | 431,836 | $ 2.19 |
| Forfeited/expired | 49,487 | 5.66 | | |
| Outstanding at December 31 | 4,188,474 | 7.63 | | |
| Exercisable | 1,529,679 | 5.67 | | |
| Weighted average fair value of options granted during year | | $ 7.46 | | |
| Weighted average fair value of shares issued under Employee Stock Purchase Plan | | $ 2.67 | | |

| | Options | | Warrants | |
|---|---|---|---|---|
| | Shares | Weighted Average Exercise Price | Shares | Weighted Average Exercise Price |
| 2002: | | | | |
| Granted | 148,889 | $ 9.47 | | |
| Exercised | 876,427 | 2.20 | | |
| Forfeited/expired | 50,854 | 3.92 | | |
| Outstanding at December 31 | 3,681,919 | 3.96 | 431,836 | $ 2.19 |
| Exercisable | 1,567,776 | 3.30 | 431,836 | 2.19 |
| Weighted average fair value of options granted during year | | $ 3.59 | | |
| Weighted average fair value of shares issued under Employee Stock Purchase Plan | | $ 1.47 | | |

| | Options | | Warrants | |
|---|---|---|---|---|
| | Shares | Weighted Average Exercise Price | Shares | Weighted Average Exercise Price |
| 2001: | | | | |
| Granted | 2,515,358 | $ 4.52 | | |
| Exercised | 2,302,843 | 2.18 | | |
| Forfeited/expired | 552,055 | 2.96 | | |
| Outstanding at December 31 | 4,460,311 | 3.44 | 431,836 | $ 2.13 |
| Exercisable | 1,431,940 | 2.06 | 431,836 | 2.13 |
| Weighted average fair value of options granted during year | | $ 2.47 | | |
| Weighted average fair value of shares issued under Employee Stock Purchase Plan | | $ 0.46 | | |

The following table summarizes information about stock options and warrants outstanding at December 31, 2003:

| | Options Outstanding | | | Options 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: | | | | | |
| $1.62 - $2.07 | 1,356,225 | 5.08 | $ 1.95 | 664,455 | $ 1.83 |
| $2.12 - $7.61 | 1,178,505 | 7.25 | 6.55 | 513,448 | 5.57 |
| $8.86 - $10.47 | 1,204,404 | 9.07 | 9.83 | 261,776 | 10.11 |
| $21.67 - $21.67 | 449,340 | 9.95 | 21.67 | 90,000 | 21.67 |

9. SEGMENT REPORTING AND FOREIGN OPERATIONS

During the years ended December 31, 2003, 2002, and 2001, the Company had foreign sales of approximately $34,263,000, $27,062,000, and $23,801,000 or approximately 25%, 23%, and 23%, respectively, of total sales, primarily in Japan, Germany, France, and the United Kingdom.

The Company operates primarily in one segment in which it develops, manufactures, and markets disposable medical products, principally for use in the diagnosis and treatment of cardiovascular disease. Major operations outside the United States include a manufacturing facility in Ireland, a distribution facility in the Netherlands, and sales subsidiaries in Europe. The following is a summary of the Company's foreign operations by geographic area for fiscal years 2003, 2002, and 2001:

| | Sales to Unaffiliated Customers | Transfers Between Geographic Areas | Revenue | Net Income (Loss) | Identifiable Assets |
|---|---|---|---|---|---|
| Fiscal year ended December 31, 2003: | | | | | |
| United States, Canada, and international distributors | $ 115,847,199 | $ 1,891,109 | $ 117,738,308 | $ 16,620,172 | $ 88,876,413 |
| Europe direct and European distributors | 20,106,309 | 9,374,000 | 29,480,309 | 351,019 | 18,424,101 |
| Eliminations | -- | (11,265,109) | (11,265,109) | 324,207 | -- |
| Consolidated | $ 135,953,508 | $ -- | $ 135,953,508 | $ 17,295,398 | $ 107,300,514 |
| Fiscal year ended December 31, 2002: | | | | | |
| United States, Canada, and international distributors | $ 99,694,349 | $ 1,787,099 | $ 101,481,448 | $ 11,415,816 | $ 65,104,920 |
| Europe direct and European distributors | 16,532,852 | 9,077,730 | 25,610,582 | 117,886 | 13,200,294 |
| Eliminations | -- | (10,864,829) | (10,864,829) | (223,672) | -- |
| Consolidated | $ 116,227,201 | $ -- | $ 116,227,201 | $ 11,310,030 | $ 78,305,214 |
| Fiscal year ended December 31, 2001: | | | | | |
| United States, Canada, and international distributors | $ 89,208,943 | $ 1,770,388 | $ 90,979,331 | $ 7,807,510 | $ 57,151,956 |
| Europe direct and European distributors | 14,826,863 | 6,101,400 | 20,928,263 | (884,181) | 9,506,859 |
| Eliminations | -- | (7,871,788) | (7,871,788) | (187,351) | -- |
| Consolidated | $ 104,035,806 | $ -- | $ 104,035,806 | $ 6,735,978 | $ 66,658,815 |

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.

10. ROYALTY AGREEMENTS

Pursuant to a 1992 settlement agreement, the Company entered into a license agreement with another medical product manufacturer (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. The license agreement will terminate upon the expiration or invalidation of the last related patents. For the rights and license granted under the agreement, the Company paid the Licensor a nonrefundable prepaid royalty in the amount of $600,000. In addition to the prepaid royalty, the Company agreed to pay the Licensor a continuing royalty 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, 2003, 2002, and 2001.

During 2002, the Company entered into a license agreement with another medical product manufacturer (the "Licensor"), whereby the Licensor granted to the Company an exclusive worldwide 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 agreed to pay the Licensor a royalty of 5% of net sales, which will not exceed $62,500 for calendar year 2003 and $75,000 per year for calendar year 2004 through 2006.

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 18 years of age. The Plan has no minimum service requirement. The Company may contribute at its discretion matching contributions based on the employees' compensation. Contributions made by the Company to the Plan for the years ended December 31, 2003, 2002, and 2001 totaled approximately $629,000, $499,000, and $361,000, respectively.

12. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

Quarterly data for the years ended December 31, 2003, 2002, and 2001 is as follows:

| | Quarter Ended | | | |
|---|---|---|---|---|
| 2003 | March 31 | June 30 | September 30 | December 31 |
| Net sales | $ 31,741,573 | $ 34,577,305 | $ 34,506,889 | $ 35,127,741 |
| Gross profit | 13,271,189 | 15,180,921 | 15,977,441 | 16,294,241 |
| Income from operations | 4,965,240 | 6,351,453 | 7,084,321 | 7,228,398 |
| Income tax expense | 2,081,644 | 2,404,031 | 2,557,307 | 2,685,001 |
| Net income | 3,752,197 | 4,205,546 | 4,651,887 | 4,685,768 |
| Basic earnings per common share | 0.15 | 0.17 | 0.18 | 0.18 |
| Diluted earnings per common share | 0.14 | 0.16 | 0.17 | 0.17 |
| 2002 | | | | |
| Net sales | $ 28,672,168 | $ 28,789,370 | $ 29,341,129 | $ 29,424,534 |
| Gross profit | 11,151,780 | 12,033,078 | 12,556,666 | 12,773,949 |
| Income from operations | 3,483,243 | 4,104,019 | 4,624,051 | 4,564,175 |
| Income tax expense | 1,095,974 | 1,376,107 | 1,509,412 | 1,470,756 |
| Net income | 2,326,907 | 2,701,814 | 3,125,403 | 3,155,906 |
| Basic earnings per common share | 0.10 | 0.11 | 0.13 | 0.13 |
| Diluted earnings per common share | 0.09 | 0.10 | 0.12 | 0.12 |
| 2001 | | | | |
| Net sales | $ 26,788,373 | $ 26,264,015 | $ 25,694,128 | $ 25,289,290 |
| Gross profit | 9,219,374 | 9,426,157 | 9,725,611 | 9,726,620 |
| Income from operations | 2,083,229 | 2,177,236 | 2,730,338 | 2,948,823 |
| Income tax expense | 460,737 | 785,935 | 854,528 | 951,217 |
| Net income | 1,186,425 | 1,858,793 | 1,744,996 | 1,945,764 |
| Basic earnings per common share | 0.06 | 0.08 | 0.08 | 0.08 |
| Diluted earnings per common share | 0.06 | 0.08 | 0.07 | 0.07 |

* * * * * *

SUPPLEMENTARY FINANCIAL DATA

The supplementary financial information required by Item 302 of Regulation S-K is contained in Note 12 to the Consolidated Financial Statements of the Company set forth above.

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

None

Item 9A. Controls and Procedures

(a) Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-14(c) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), within 90 days of the filing date of this report. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective in alerting them on a timely basis to material information relating to our Company (including its consolidated subsidiaries) required to be included in our reports filed or submitted under the Exchange Act

There have been no significant changes (including corrective actions with regard to significant deficiencies or material weaknesses) in our internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation referenced in paragraph (a) above.

PART III

Items 10, 11, 12, 13 and 14

These items are incorporated by reference to the Company's definitive Proxy Statement relating to the Annual Meeting of Shareholders scheduled for May 25, 2004. The definitive Proxy Statement will be filed with the Commission not later than 120 days after December 31, 2003, pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended.

PART IV

Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

(a) Documents filed as part of this report:

(1) Financial Statements. The following consolidated financial statements and the notes thereto, and the Independent Auditors' Report are incorporated by reference as provided in Item 8 of this report:

-- Independent Auditors' Report

-- Consolidated Balance Sheets as of December 31, 2003 and 2002

-- Consolidated Statements of Operations for the Years Ended December 31, 2003, 2002 and 2000

-- Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2003, 2002 and 2001

-- Consolidated Statements of Cash Flows for the Years Ended December 31, 2003, 2002 and 2001

-- Notes to Consolidated Financial Statements

(2) Financial Statement Schedule

-- Schedule II - Valuation and qualifying accounts

VALUATION AND QUALIFYING ACCOUNTS
YEARS ENDED DECEMBER 31, 2003, 2002, AND 2001

| Description | Balance at Beginning of Year | Additions Charged to Costs Expenses | Deductions | Balance at End of Year |
|---|---|---|---|---|
| ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS: | | | | |
| 2001 | $ (440,275) | $ (50,892) | $ 82,316 | $ (408,851) |
| 2002 | (408,851) | (81,026) | 13,583 | (476,294) |
| 2003 | (476,294) | (322,454) | 49,745 | (749,003) |
| RESERVE FOR INVENTORY OBSOLESCENCE: | | | | |
| 2001 | $(1,986,315) | $(3,119,864) | $ 1,710,818 | $(3,395,361) |
| 2002 | (3,395,361) | (1,830,633) | 2,457,572 | (2,768,422) |
| 2003 | (2,768,422) | (931,430) | 1,322,641 | (2,377,211) |

All other schedules have been omitted because they are not required, not applicable, or the information is otherwise set forth in the financial statements or notes thereto.

(b) Reports on Form 8-K:

| Form 8-K | Date of Event | Description |
|---|---|---|
| Item 12 & 7 | 10-24-03 | Company's financial and operating results for the quarter ended September 30, 2003 |

(c) Exhibits:

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

| Exhibit No. | Description | Description |
|---|---|---|
| 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 | Amended and Restated Loan Agreement with Zion's First National Bank dated August 11, 1999 | [Form 10-K for year ended December 31, 1995, Exhibit No. 10.5 |
| 10.6 | Amendment to Loan Agreement with Zion's First National Bank 3/11/2002* | Form 10-K for year ended December 31, 2000, Exhibit No. 10.6] |
| 10.7 | Fifth Amendment to Loan Agreement with Zion's First National Bank Date November 15, 2002* | [Form 10-K for year ended December 31, 2003, Exhibit No. 10.7] |
| 10.8 | Employment agreement between the Company and Fred P. Lampropoulos* | [Form 10-K for year ended December 31, 2003, Exhibit No. 10.8] |
| 10.9 | Employment agreement between the Company and Kent W. Stanger* | [Form 10-K for year ended December 31, 2003, Exhibit No. 10.9] |
| 10.10 | Employment agreement between the Company and B. Leigh Weintraub* | [Form 10-K for year ended December 31, 2003, Exhibit No. 10.10] |
| 10.11 | Employment agreement between the Company and Brian Ferrand* | [Form 10-K for year ended December 31, 2003, Exhibit No. 10.11] |

| | | |
|---|---|---|
| 10.12 | Amended and Restated Deferred Compensation plan | Filed herewith |
| 21 | Subsidiaries Of Merit Medical Systems, Inc | Filed herewith |
| 23.1 | Consent of Independent Auditors | Filed herewith |
| 31.1 | Certification of Chief Executive Officer | Filed herewith |
| 31.2 | Certification of Chief Financial Officer | Filed herewith |
| 32.1 | Certification of Chief Executive Officer | Filed herewith |
| 32.2 | Certification of Chief Financial Officer | Filed herewith |

* These exhibits are incorporated herein by reference.

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 10, 2004.

MERIT MEDICAL SYSTEMS, INC.

By: /s/: FRED P. LAMPROPOULOS
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Fred P. Lampropoulos, President and Chief Executive Officer

ADDITIONAL SIGNATURE AND POWER OF ATTORNEY

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 10, 2004. In addition, each person whose signature to this report appears below hereby constitutes and appoints Fred P. Lampropoulos and Kent W. Stanger, and each of them, as his true and lawful attorney-in-fact and agent, with full power of substitution, to sign on his behalf individually and in the capacity stated below and to perform any acts necessary to be done in order to file all amendments and post-effective amendments to this report, and any and all instruments or documents filed as part of or in connection with this report or the amendments thereto and each of the undersigned does hereby ratify and confirm all that said attorney-in-fact and agent, or his substitutes, shall do or cause to be done by virtue hereof.

| Signature | Capacity in Which Signed |
|---|---|
| /s/: FRED P. LAMPROPOULOS<br>Fred P. Lampropoulos | President, Chief Executive Officer and Director |
| /s/: KENT W. STANGER<br>Kent W. Stanger | Chief Financial Officer, Secretary, Treasurer and Director (Principal financial and accounting officer) |
| /s/: RICHARD W. EDELMAN<br>Richard W. Edelman | Director |
| /s/: REX C. BEAN<br>Rex C. Bean | Director |
| /s/: JAMES J. ELLIS<br>James J. Ellis | Director |
| /s/: MICHAEL E. STILLABOWER<br>Michael E. Stillabower | Director |

Exhibit 10.12 Amended and Restated Deferred Compensation Plan

Merit Medical Systems, Inc.

# DEFERRED COMPENSATION PLAN

Amended and Restated
Effective January 1, 2004





## ARTICLE I

COMBINATION OF PLANS AND PURPOSE

Merit Medical Systems, Inc. (the "Company") hereby combines, amends and restates the Merit Medical Systems, Inc. Highly Compensated Deferred Compensation Plan and the Merit Medical Systems, Inc. Select Highly Compensated Deferred Compensation Plan (collectively the "Predecessor Plans") into a single plan, the Merit Medical Systems, Inc. Deferred Compensation Plan (the "Plan"), and, further, hereby amends and restates the aforementioned Predecessor Plans as follows, effective January 1, 2004(the "Effective Date"). The purpose of the Plan remains the same as it was in the previous plans: to provide each participant with an opportunity to defer receipt of a portion of his or her salary, bonus, and other specified cash compensation that is designated as deferrable by the Plan Administrator. The purpose of the amendment and restatement is to add certain flexibility and additional features to the Plan.

The amended and restated Plan is not intended to meet the qualification requirements of Section 401(a) of the Internal Revenue Code, but is intended to be an unfunded arrangement providing deferred compensation to eligible employees who are part of a select group of management or highly compensated employees of the Company and other Participating Employers within the meaning of Sections 201, 301 and 401 of ERISA. The amended and rested Plan is intended to be exempt from the requirements of Parts 2, 3 and 4 of Title I of ERISA as a "top hat" plan, and to be eligible for the alternative method of compliance for reporting and disclosure available for unfunded "top hat" plans.

## ARTICLE II
Definitions

2.1 Account Balance. Account Balance means, with respect to the Deferred Compensation Account or a Sub-Account, the total value of all the Investment Options in which the Participant deferrals, and Company Contributions, have been Deemed Invested as of a specific date, taking into account the value of all distributions from that Account or Sub-Account to the specific date.

2.2 Allocation Election. Allocation Election means a choice by a Participant of one or more Investment Options, and the allocation among them, in which future Participant deferrals and/or existing Account Balances are Deemed Invested for purposes of determining earnings in a particular Sub-Account.

2.3 Allocation Election Form. Allocation Election Form means the form (or

Website screen) approved by the Plan Administrator on which the Participant makes an Allocation Election, Rebalances the Deemed Investment of a Sub-Account, or elects a Transfer.

2.4 Annual Valuation Date. Annual Valuation Date shall mean the anniversary of the Termination Valuation Date or In Service Distribution Valuation Date utilized to determine the amount of an annual installment payment.

2.5 Beneficiary. Beneficiary means a natural person, estate, or trust designated by a Participant on the form designated by the Plan Administrator to receive benefits to which a Beneficiary is entitled under and in accordance with provisions of the Plan. The Participant's estate shall be the Beneficiary if:

a. the Participant has not designated a natural person or trust as Beneficiary, or

b. the designated Beneficiary has predeceased the Participant.

2.6 Change in Control. Change in Control means the occurrence of: (a) any merger or consolidation in which the Company is not the surviving corporation and which results in the holders of the outstanding voting securities of the Company (determined immediately prior to such merger or consolidation) owning less than a majority of the outstanding voting securities of the surviving corporation (determined immediately following such merger or consolidation), (b) any sale or transfer by the Company of all or substantially all of its assets, other than to another entity in which the holders of the outstanding voting securities of the Company (determined immediately prior to such transfer or sale) continue to own a majority of the outstanding voting securities immediately after the transfer or sale, or (c) any tender offer or exchange offer for or the acquisition, directly or indirectly, by any person or group of all or a majority of the then-outstanding voting securities of the Company.

2.7 Chief Executive Officer. Chief Executive Officer means Chief Executive Officer of the Company.

2.8 Code. Code means the Internal Revenue Code of 1986, as amended from time to time.

2.9 Company. Company means Merit Medical Systems, Inc.

2.10 Company Contributions. Company Contributions shall mean all Company Discretionary Contributions, if any, made with respect to a Participant.

2.11 Company Discretionary Contributions. Company Discretionary Contributions shall mean credits to a Participant's Retirement/Termination Sub-Account by the Company or a Participating Employer at a time and in an amount determined in the sole discretion of the Company.

2.12 Compensation. Compensation shall mean, for purposes of this Plan, the following items paid or payable by the Company or a Participating Employer to a Participant: base salary (including any deferred salary under a Code Section 401(k) or 125 plan), annual bonus, quarterly bonus, commissions, and such other cash compensation (if any) as the Plan Administrator designates as Compensation eligible for deferral under this Plan.

2.13 Compensation Deferral Agreement. Compensation Deferral Agreement shall mean the deferral election form, or such other form(s) furnished by the Plan Administrator (or screens on the Participant Website approved by the Plan Administrator), on which a Participant elects: (a) the amount of deferral and type of Compensation (base salary, bonus, etc.) to be deferred beginning the first day of the following Plan Year; (b) any In Service Distribution Dates for that year's, or a portion of that year's, deferrals (thus effectively designating the In Service Sub-Accounts to which such deferrals will be allocated); and (c) the form of payment elections for Termination Benefits and In Service Distributions. The Allocation Election Form may be part of the Compensation Deferral Agreement, in the discretion of the Plan Administrator.

2.14 Death Benefit. Death Benefit shall mean a distribution of the total amount of the Participant's Deferred Compensation Account Balance, including any remaining unpaid In Service Sub-Account balances, to the Participant's Beneficiary(ies) in accordance with Article V of the Plan.

2.15 Deemed Investment. A Deemed Investment (or "Deemed Invested") shall mean the notional conversion of a dollar amount of deferred Compensation and Company Contributions credited to a Participant's Deferred Compensation Account into hypothetical shares or units (or a fraction of such measures of ownership, if applicable) of the underlying investment (e.g. mutual fund or other investment) which is referred to by the Investment Option(s) selected by the Participant. The conversion shall occur as if shares (or units) of the designated investment were being purchased (or sold, for a distribution) at the purchase price as of the close of business of the day on which the Deemed Investment occurs. At no time shall a Participant have any real or beneficial ownership in the actual investment to which the Investment Option refers, irrespective of whether such a Deemed Investment is mirrored by an actual identical investment by the Company or a trustee acting on behalf of the Company.

2.16 Deferred Compensation Account ("Account"). A Participant's Deferred Compensation Account shall mean the aggregate of all Sub-Accounts maintained for Participant deferrals and Company Contributions, together with a record of Deemed Investments in accordance with Participants' Allocation Elections, minus any withdrawals or distributions from said Account. The Account, and all component Sub-Accounts, shall be a bookkeeping account utilized solely as a device for the measurement of amounts to be paid to the Participant under the Plan. The Account, and all Sub-Accounts, shall not constitute or be treated as an escrow, trust fund, or any other type of funded account for Code or ERISA purposes and, moreover, amounts credited thereto shall not be considered "plan assets" for ERISA purposes.

2.17 Deferred Compensation Committee or "Committee". Deferred Compensation Committee, or "Committee" means a committee of at least three (3) officers of the Company appointed by the Chief Executive Officer, who shall serve until the earlier of termination of service or appointment of a replacement by the Chief Executive Officer.

2.18 Disability. Disability means "permanent disability" of a Participant within the meaning of the provisions of the Qualified Plan in effect on the Effective Date.

2.19 Eligibility Period. Eligibility Period means the 12-month period that begins October 1 and ends September 30 prior to the commencement of the Plan Year for which eligibility is being determined.

2.20 Eligible Employee. Eligible Employee means an Employee who is part of a select group of management or highly compensated employees of the Company or another Participating Employer within the meaning of Sections 201, 301 and 401 of ERISA, who satisfies the eligibility criteria in Section 3.1, and who is designated in writing by the Committee as eligible to participate in the Plan.

2.21 Employee. Employee means a full-time salaried employee of the Company or a Participating Employer.

2.22 Employer. Employer means the Company and Participating Employers. As to any Participant, the Employer is the entity or entities that employ or employed the Participant.

2.23 ERISA. ERISA means the Employee Retirement Income Security Act of 1974, as amended from time to time.

2.24 In Service Distribution. In Service Distribution shall mean a payment to the Participant following a date elected by the Participant (the In Service Distribution Date) of the amount represented by the account balance in the In Service Sub-Account pertaining to that In Service Distribution. In Service Distributions shall be made in accordance with Participants' In Service Distribution form of payment election.

2.25 In Service Sub-Account. In Service Sub-Account shall mean a separate Sub-Account of the Deferred Compensation Account, created whenever a Participant elects a new In Service Distribution Date (not already established with a Sub-Account) with respect to a portion, or all, of his or her deferral contributions, to which such portion of the deferral contributions specified by the Participant is credited and Deemed Invested in accordance with the Participant's Allocation Election.

2.26 In Service Distribution Date. In Service Distribution Date shall mean the date selected by the Participant, following which the In Service Distribution Sub-Account Balance shall be distributed in accordance with the Plan

2.27 In Service Distribution Valuation Date. In Service Distribution Valuation Date shall mean the last day of the calendar month in which the In Service Distribution Date falls.

2.28 Investment Option. Investment Option shall mean a security or other investment such as a mutual fund, life insurance sub-account, or other investment approved by the Committee for use as part of an Investment Option menu, which a Participant may elect as a measuring device to determine Deemed Investment earnings (positive or negative) to be credited (if positive) or charged against (if negative) the Participant's Account or Sub-Account. The Participant has no real or beneficial ownership in the security or other investment represented by the Investment Option.

2.29 Participant. Participant means an Eligible Employee who: (a) is selected to participate in this Plan in accordance with Section 3.1 and has elected to defer Compensation in accordance with the Plan in any Plan Year; (b) has received a Company Discretionary Contribution; or (c) has an Account Balance in his or her Deferred Compensation Account, including any Sub-Account, greater than zero prior to his or her death. A Participant's continued participation in the Plan shall be governed by Section 3.2 of the Plan.

2.30 Participating Employer. Participating Employer means a subsidiary or affiliate of the Company that (a) is a member of the same commonly controlled group of corporations or trades or businesses (within the meaning of Code Section 414(b) and (c)) as is the Company (b) participates as a co-sponsoring employer in a Company Qualified Plan, and (c) has adopted the Plan with the consent of the Committee. As of the Effective Date, Merit Services, Inc. and Merit Sensor Systems, Inc. are Participating Employers. The Committee may remove any subsidiary or affiliate of the Company as a Participating Employer at any time effective upon written notice to that subsidiary or affiliate.

2.31 Plan. Plan means the Merit Medical Systems, Inc. Deferred Compensation Plan as documented herein and as may be amended from time to time hereafter.

2.32 Plan Administrator. Plan Administrator shall mean a person or persons appointed by the Deferred Compensation Committee who is (are) responsible for the day-to-day decision making, record keeping, and administration of the Plan; provided, that the Plan Administrator may delegate duties of the Plan Administrator to employees or others to assist in the administration of the Plan.

2.33 Plan Year. Plan Year means January 1 through December 31 each year.

2.34 Qualified Plan. Qualified Plan means the Merit Medical Systems, Inc. 401(k) Profit Sharing Plan or any successor retirement plan(s) maintained by the Company that is intended to qualify under Section 401 of the Code.

2.35 Rabbi Trust. Rabbi Trust means a trust established under Section 8.2(b) below, if any.

2.36 Rebalance. Rebalance means an Allocation Election which pertains to a Participant's then existing Sub-Account and which reallocates the Sub-Account Balance among Investment Options available in the Plan.

2.37 Retirement/Termination Benefit. Retirement/Termination Benefit shall mean a distribution of the Participant's Deferred Compensation Account Balance, including all unpaid In Service Sub-Account balances, to the Participant (or Beneficiary) as specified in Section 5.2 of the Plan.

2.38 Retirement/Termination Sub-Account. Retirement/Termination Sub-Account shall mean that portion of the Deferred Compensation Account not allocated to In Service Sub-Accounts.

2.39 Sub-Account. Sub-Account shall mean a portion of the Deferred Compensation Account maintained separately by the Plan Administrator in order to properly administer the Plan.

2.40 Termination of Employment. Termination of Employment shall mean the termination of a Participant's employment with his or her Employer, voluntarily or involuntarily for any reason;provided, however, that a transfer of employment between the Company and another Participating Employer or between two Participating Employers shall not be deemed to be a Termination of Employment. In the event that a subsidiary or affiliate of the Company that is a Participating Employer subsequently ceases for any reason to be a Participating Employer, then effective as of the date of such cessation all Participants then employed by that entity shall be deemed to have terminated employment.

2.41 Termination Valuation Date. Termination Valuation Date shall mean the last day of the calendar month in which Termination of Employment occurs.

2.42 Transfer. Transfer means a partial Allocation Election with respect to a Participant's then existing Sub-Account where a Participant transfers a portion of the Sub-Account balance from one Investment Option to another.

2.43 Years of Service. Years of Service mean years of service as determined for vesting purposes under the provisions of the Qualified Plan as in effect on the Effective Date (i.e., 1,000 or more hours of service in a calendar year), including any Years of Service with a predecessor employer to the extent credited under the Qualified Plan.

ARTICLE III

ELIGIBILITY AND PARTICIPATION

3.1 Eligibility and Participation. Except as provided in Section 3.2 below, each Employee who satisfies both of the criteria set forth in subsections 3.1(a) and (b) below during an Eligibility Period shall be an Eligible Employee with respect to the first Plan Year commencing after that Eligibility Period. No other Employee may become a Participant or otherwise defer Compensation under the Plan.

(a) To be eligible an Employee must have the following position and title:

(1) Chief Executive Officer; or
(2) Chief Financial Officer; or
(3) Champion Circle Sales Representative; or
(4) Chief Information Officer; or
(5) Controller--Staff; or
(6) Chief Operating Officer; or
(7) General Counsel; or
(8) Director; or
(9) Executive Vice President; or
(10) Founder; or
(11) General Manager--Staff; or
(12) National Accounts/Packer Sales Manager; or
(13) National Sales Manager; or
(14) President; or
(15) Regional Sales Manager; or
(16) Site Controller; or
(17) Site General Manager; or
(18) Site President; or
(19) Vice President; or
(20) Such other positions as permit the Employee to influence executive management with respect to company policy, particularly regarding the amount and form of their remuneration for services, as determined by the Committee in its discretion; and

(b) To be eligible, an Employee must receive Compensation for the Eligibility Period (i) in excess of that required for "highly compensated employee" status under Code Section 414 with respect to tax-qualified retirement plans, determined as if the Eligibility Period were the applicable qualified Plan Year and as if highly compensated employee status were based on compensation for that Plan Year; (ii) sufficient to place such Employee in the highest six percent (6%) of the Employers' payroll for that Eligibility Period; and (iii) greater than 250 percent of the average (mean) Compensation of all Employees during the Eligibility Period.

3.2 Duration. Once an Eligible Employee becomes a Participant, such Employee shall continue to be a Participant so long as he or she is entitled to receive benefits hereunder, notwithstanding any subsequent Termination of Employment or other cessation of Eligible Employee status. The foregoing sentence notwithstanding, an Eligible Employee who fails to qualify during any Eligibility Period after having once qualified, will continue to be a Participant in the Plan with respect to his or her Account Balances, but will not be permitted to defer Compensation during the first Plan Year commencing after the end of the Eligibility Period during which he or she failed to qualify. Failure to qualify for three (3) consecutive Eligibility Periods, once having

qualified as an Eligible Employee, will be considered grounds for termination from the Plan, in the sole discretion of the Committee. In such instance, a terminated Participant will receive a single lump sum payment of the vested portion of his or her Deferred Compensation Account (including all In Service Sub-Accounts), and will not be considered an Eligible Employee until the close of the first Eligibility Period after he or she again satisfies the eligibility criteria.

3.3 Revocation of Future Participation. Notwithstanding the provisions of Section 3.2, the Committee may revoke a Participant's eligibility to make future deferrals under this Plan at any time for any other reason, in its sole discretion. Such revocation will not affect in any manner a Participant's Deferred Compensation Account or other terms of this Plan.

3.4 Notification. Each newly Eligible Employee shall be notified by the Plan Administrator, in writing, of his or her eligibility to participate in this Plan.

## ARTICLE IV
## DEFERRAL ELECTIONS, COMPANY CONTRIBUTIONS, AND PARTICIPANT ACCOUNT VALUATION

4.1 Deferral Elections, generally

(a) A Participant shall make a "Deferral Election" under the Plan by completing and submitting to the Plan Administrator a written Compensation Deferral Agreement provided by the Plan Administrator (or completing and electronically submitting the deferral election screen on the Participant website, when made available by the Plan Administrator). Deferral Elections shall be made during an annual enrollment period established by the Plan Administrator which shall end no later than December 1 preceding the Plan Year to which the Deferral Election relates, unless the enrollment period is extended by the Plan Administrator because of extraordinary circumstances. In no event may an enrollment period be extended beyond the last day of the month prior to the beginning of the Plan Year to which the Deferral Elections refer. Other cash Compensation Deferral Elections (if any are permitted by the Committee) shall be made prior to the time such amounts have been earned, during special enrollment periods announced by the Plan Administrator. The foregoing portions of Article III notwithstanding, an Employee who becomes an Eligible Employee during any Plan Year will not be eligible to participate in the Plan until the following the Plan Year. No Deferral Election, or modification or revocation of a prior Deferral Election shall be effective unless the Participant properly completes, executes and timely submits to the Plan Administrator or its designated agent a Compensation Deferral Agreement (or other form or available website screen approved by the Plan Administrator) containing that election. Any provision herein to the contrary notwithstanding, if a Participant receives a "hardship" distribution from the Qualified Plan, the Participant's elective deferrals hereunder shall be suspended for the period required under the Qualified Plan and the applicable Treasury Regulations relating to hardship distributions from qualified plans.

(b) Deferral Elections shall pertain to a single Plan Year. Participants must make a new Deferral Election each year in order to defer Compensation during the following Plan Year. If no Deferral Election is received from a Participant during an

enrollment period, or if the Deferral Election received by the Plan Administrator is invalid and the discrepancy is not rectified prior to the end of the enrollment period, then no deferrals of Compensation will be permitted for such Participant during the Plan Year following the enrollment period.

(c) A Deferral Election shall designate in his or her Compensation Deferral Agreement (or on the appropriate Website screen, when available) the types and amounts of Compensation to be deferred in each Plan Year to which the Deferral Election relates. Such designation may be expressed in whole percentages of the type of Compensation in question or in flat dollar amounts. A Participant may defer up to 100% of his or her Compensation to be paid during the Plan Year to which the election refers. The foregoing sentence notwithstanding, the Plan Administrator may establish a maximum deferral dollar amount for each Plan Year; such maximum, if any, will be set forth on the Compensation Deferral Agreement. A Participant may elect different percentages or amounts to be deferred from salary, commissions, annual bonus and quarterly bonus.

(d) Deferral Elections shall be made during the enrollment period immediately preceding the Plan Year during which the Compensation will be paid.

(e) The foregoing portions of this Article IV notwithstanding, in the event a Participant's Deferral Election results in insufficient non-deferred Compensation from which to withhold taxes, Qualified Plan contributions, Code Section 125 salary reduction contributions or other amounts that the Employer is obligated to withhold in accordance with applicable law, the Deferral Election shall be reduced as necessary to allow the Company to satisfy tax withholding requirements.

(f) Deferrals pertaining to base salary and/or commissions shall be deducted on a pro rata basis from a Participant's base salary and/or commissions for each pay period during the Plan Year, and the amount deferred shall be credited to the Participant's Retirement/Termination Sub-Account or In Service Sub-Account(s), and a Deemed Investment shall be made in the investment(s) represented by the Investment Option(s) elected by the Participant as of the close of business on the date it would otherwise have been paid as Compensation to the Participant. Deferrals pertaining to bonus awards shall be deducted from the Participant's bonus on the date of payment of the bonus, and the amount deferred shall be credited to the Participant's Termination Sub-Account or In Service Sub-Account(s), and a Deemed Investment shall be made in the investment(s) represented by the Investment Option(s) elected by the Participant as of the close of business on the date it would otherwise have been paid as Compensation to the Participant.

(g) The Compensation Deferral Agreement shall indicate the Participant's election of a payment schedule for his or her Retirement/Termination Benefit. A Participant shall elect to have such Retirement/Termination Benefit distributed: (i) a portion, or all, in a single lump sum payable as soon as administratively practicable following the Termination Valuation Date; and/or (ii) the balance (assuming it is at least $25,000) in up to fifteen (15) annual or up to 60 quarterly installment payments payable at the time described in Section 5.3. An election of a payment schedule for a Participant's Retirement/Termination Benefit shall

pertain to the entire Retirement/Termination Sub-Account Balance (including unpaid In Service Sub-Account Balances). A Participant shall be permitted to change his or her payment schedule election at any time by filing a new Compensation Deferral Agreement (or by following such procedures as are set by the Plan Administrator regarding using the Participant website, when available), provided such election is made at least thirteen (13) months prior to the Participant's date of Termination of Employment. Any payment schedule election made within thirteen months of Termination of Employment shall be null and void, and the most recent payment schedule election which is dated at least thirteen months prior to Termination of Employment will be in effect.

4.2 In Service Distribution Date Election.

(a) The Compensation Deferral Agreement shall also indicate the Participant's election of In Service Distribution Date(s) (if any). An In Service Distribution election shall pertain to such portion of deferred Compensation for the Plan Year as elected by the Participant and shall cause an In Service Sub-Account to be established (unless such Sub-Account already exists), to which such portion of deferred Compensation shall be credited. In the event an In Service Sub-Account has already been established for the In Service Distribution Date referred to in the deferral election, such portion of deferred Compensation shall be credited to the existing In Service Sub-Account.

(b) A Participant may elect to establish up to five (5) In Service Sub-Accounts.

(c) A Participant may change or cancel an In Service Distribution Date twice only, as follows:

(i) An In Service Distribution Date change (including a cancellation) may be made by completing, executing and submitting to the Plan Administrator a new Compensation Deferral Agreement or such other form as may be provided for In Service Distribution Date changes by the Plan Administrator (or completing and electronically submitting the appropriate screen on the Participant website, when available) at any time, so long as the date that such form is submitted to the Plan Administrator is at least thirteen (13) months prior to the In Service Distribution Date being changed and (except in the case of a cancellation) results in a postponement of the In Service Distribution Date by at least one year ; and

(ii) The In Service Distribution Date may be extended to a subsequent year (and must be extended by at least one year), but it may not be made to occur sooner than the original date.

(iii) Notwithstanding the foregoing, an In Service Distribution Date may be cancelled, even after one or two prior changes. A cancellation of an In Service Distribution Date shall cause the In Service Sub-Account associated with it to be merged into the Retirement/Termination Sub-Account.

(iv) Making an In Service Distribution Date change or cancellation in accordance with the Plan is specific to the In Service Distribution to which it refers, and shall not affect other In Service Distributions or the ability of the Participant to make new In Service Distribution elections with respect to new deferral contributions. 10

(d) Any portion of a deferral not credited to an In Service Distribution Sub-Account will be credited to the Retirement/Termination Sub-Account.

(e) The Compensation Deferral Agreement shall also indicate the Participant's election of payment schedule for each In Service Distribution Date. Permitted payment schedules for In Service Distributions are a single lump sum or (assuming the In Service Distribution Sub-Account Balance is at least $5,000) up to five (5) annual or twenty (20) quarterly installment payments. A Participant shall be permitted to change his or her payment schedule election for an In Service Distribution at any time by completing, executing and filing with the Plan Administrator a new Compensation Deferral Agreement (or by following such procedures as are set by the Plan Administrator regarding using the Participant website, when available), provided such election is made at least thirteen (13) months prior to the In Service Distribution Date.

4.3 Company Contributions and Vesting

(a) Company Discretionary Contributions. The Company may make Company Discretionary Contributions to one, some, all or no Participant(s) by crediting to said Participants' Retirement/Termination Sub-Accounts effective at such times as the and in such amounts as the Company determines in its sole and absolute discretion. The Company shall be under no obligation to make Company Discretionary Contributions unless the Company expressly obligates itself to do so under a written agreement. Company Discretionary Contributions and Deemed Investment earnings thereon shall be subject to a vesting schedule set forth in (d) hereinbelow. The Company shall have no obligation to treat Participants in an equivalent or similar manner with respect to Company Discretionary Contributions, or to be consistent from year to year with respect to Company Discretionary Contributions.

(b) Deemed Investments shall be made in the same manner as for deferrals (Section 4.1 of the Plan) on the date the Company Matching Contribution is credited to the Participant's Termination Benefit Sub-Account.

(c) The Company shall establish a vesting schedule for each Company Discretionary Contribution, which shall be reduced to writing and provided to Participants who receive the Company Discretionary Contribution either at the time the Company Discretionary Contribution is made or, in the case of Company Discretionary Contributions that "match" Participant deferral amounts (in any percentage), prior to the enrollment period during which Participants will make Deferral Elections that will be subject to the "match". If the Company fails to provide a written vesting schedule in accordance herewith, then the Company Discretionary Contribution will be 100% vested when made.

4.4 Allocation Elections and Valuation of Accounts

(a) A Participant shall elect Investment Options from a menu provided by the Plan Administrator. The initial election shall be made on the Allocation Election form approved by the Plan Administrator (or Allocation Election Screen on the Participant website approved by the Plan Administrator) and shall specify the allocations among the Investment Options elected. A Participant may make different Allocation Elections for each Sub-Account. As of any date, a

Participant's Sub-Accounts shall be valued as the sum of the value of all Deemed Investments on that date (or if that date is not a business day as of which publicly traded Investment Options can be readily valued, the most recent day preceding that date as of which the publicly traded Investment Options can be readily valued) after subtracting any prior withdrawals or distributions from said Sub-Account. Investment Options shall be utilized to determine the earnings attributable to the sub-account. Elections of Investment Options do not represent actual ownership of, or any ownership rights in or to, the securities or other investments to which the Investment Options refer, nor is the Company in any way bound or directed to make actual investments corresponding to Deemed Investments.

(b) The Committee, in its sole discretion, shall be permitted to add or remove Investment Options provided that any such additions or removals of Investment Options shall not be effective with respect to any period prior to the effective date of such change. Any unallocated portion of a Sub-Account or any unallocated portion of new deferrals shall be Deemed Invested in an Investment Option referring to a money market based fund or sub-account.

(c) A Participant may make a new Allocation Election with respect to future deferrals, and may Rebalance or Transfer funds in any of his or her Sub- Accounts, by completing, executing and submitting to the Plan Administrator an amended Allocation Election Form (or by accessing the website when available), provided that such new allocations, Rebalances or Transfers shall be in increments of one percent (1%), and Rebalances and Transfers apply to the entire Sub-Account Balance. New Allocation Elections, Rebalances, and Transfers may be made on any business day, and will become effective on the same business day or, in the case of Allocation Elections received after a cut-off time established by the Plan Administrator, the following business day.

(d) Notwithstanding anything in this Section to the contrary, the Company shall have the sole and exclusive authority to invest any or all amounts deferred in any manner, regardless of any Allocation Elections by any Participant. A Participant's Allocation Election shall be used solely for purposes of determining the value of such Participant's Sub-Accounts and the amount of the corresponding liability of the Company in accordance with this Plan.

4.5 Prohibition Against Modifications to Deferral Elections. A Participant may not modify a Compensation Deferral Agreement or deferral election during a Plan Year. The foregoing notwithstanding, The Committee, in its sole discretion, may permit a Participant, who petitions the Committee in writing, to revoke a Compensation Deferral Agreement for the balance of the Plan Year. If a revocation is permitted, such Participant may not defer Compensation into the Plan for the balance of the Plan Year in which the revocation occurred.

## ARTICLE V

## DISTRIBUTIONS AND WITHDRAWALS

The Employer shall pay directly, or may cause a Rabbi Trust established under Section 8.2(b) below to pay, to each Participant that is or was at any time after the Effective Date employed by such Employer (or, if any such Participant is deceased, to that Participant's Beneficiaries), deferred compensation equal

to the vested portion of the Participant's Deferred Compensation Account in accordance with the terms of this Plan and the Participant's applicable Compensation Deferral Agreements. All payments shall be reduced by applicable withholding taxes as determined by the Plan Administrator in its sole discretion. In the case of a Participant who has been employed by more than one Employer, either concurrently or sequentially, the Plan Administrator may adopt reasonable rules for apportioning primary responsibility for such payments among those Employers. The Company shall pay any amounts due under the Plan which another Participating Employer is required, but fails, to pay. In such case, the Company shall have a right to contribution and reimbursement from that Participating Employer for the amount so paid.

5.1 In Service Distributions.

(a) In the event an In Service Distribution Sub-Account Balance shall be less than $5,000 on the initial In Service Distribution Valuation Date applicable to that Sub-Account, the Employer shall pay, or cause a Rabbi Trust pay, to the Participant the amount of such In Service Distribution Sub-Account Balance in a single lump sum as soon as administratively practicable following the In Service Distribution Valuation Date. Otherwise, the Employer shall pay or cause a Rabbi Trust to pay each In Service Distribution in accordance with the Participant's payment schedule election made with respect thereto (either a lump sum, in annual or quarterly installments, or in a combination of a partial lump sum and annual or quarterly installments, as the Participant has properly elected), beginning as soon as administratively practicable following the applicable In Service Distribution Valuation Date. In the event a Participant has properly elected installment payments for an In Service Distribution, the installment payments shall be determined as set forth in Section 5.3 of the Plan. In the absence of an effective election of installment payments, the Employer shall pay, or cause a Rabbi Trust to pay, In Service Distribution Sub-Account Balances in a lump sum.

(b) Notwithstanding a Participant's election to receive an In Service Distribution, all In Service Distribution Sub-Account Balances shall be distributable as part of a Retirement/Termination or Death Benefit if the triggering date for such Retirement/Termination or Death Benefit occurs prior to the completion of payment(s) elected in connection with any In Service Distribution Date.

5.2 Retirement/Termination Benefit Distribution. The Retirement/Termination Benefit shall be paid in accordance with the Participant's payment schedule election made with respect thereto (either in a single lump sum, in annual or quarterly installments or in a partial lump sum with subsequent annual or quarterly installments, as the Participant has properly elected), beginning within ninety (90) days of the Termination Valuation Date. In the event a Participant has elected installment payments for a Retirement Distribution, the installment payments shall be determined as set forth in Section 5.3 of the Plan. In the absence of an effective election of installment payments, payment shall be made in a lump sum.

5.3 Installment Payments. If the Participant has properly elected installment payments for his or her Retirement/Termination Benefit distribution or an In Service Distribution, cash payments will be made beginning as soon as administratively practicable following the applicable Valuation Date (Termination or In Service) or, in the event

of a partial lump sum election, following the first anniversary of the partial lump sum payment made following Termination of Employment . Such payments shall continue on or about the anniversary of the previous installment payment until the number of installment payments elected has been paid. The installment payment amount shall be determined annually (regardless of whether quarterly installments have been elected) as the result of a calculation, performed on the Annual Valuation Date, where (i) is divided by (ii):

(i) equals the value of the applicable Sub-Account on the Annual Valuation Date;

and

(ii) equals the remaining number of years of installment payments; and

Any quarterly installment payments will be determined by dividing the annual installment payment amount by four (4).

5.4 Small Account Balance Lump Sum Payment.

In the event that a Participant's Retirement/Termination Sub-Account Balance is less than $25,000 or a Participant's In Service Distribution Sub-Account Balance is less than $5,000 on the initial Termination or In Service Distribution Valuation Date, the In Service Distribution or Retirement Benefit, as applicable, shall be paid in a lump sum and any form of payment election to the contrary shall be null and void.

5.5 Disability Benefit. In the event of a Participant's Disability, the Participant shall receive a payment equal to the Participant's entire remaining Deferred Compensation Account Balance, which amount shall be paid in accordance with the Participant's payment schedule election as though it were a Retirement/Termination Benefit.

5.6 Death Benefit.

(a) In the event of a Participant's death either before Termination of Employment or before complete distribution of any In Service Distribution or Retirement/Termination Benefit, such Participant's Beneficiary shall be paid a Death Benefit in the amount of the deceased Participant's remaining Deferred Compensation Account Balance in a single lump sum as soon as practicable following the end of the month in which the Participant's death occurred. The Valuation Date for purposes of determining the Death Benefit shall be the last day of the month in which the Participant's death occurs.

(b) Each Participant may designate one or more primary and secondary (contingent) Beneficiaries and may revoke his or her prior Beneficiary designations at any time provided that all such Beneficiary designations and revocations of prior designations shall be effective only if made in writing, executed by the Participant, and submitted to the Plan Administrator, prior to the time of the Participant's death. In the event of conflicting Beneficiary designations, the most recent, effective designation shall control. If a Participant fails or declines for any reason to effectively designate a Beneficiary, or if no designated Beneficiary survives the Participant, the Company shall pay (or cause the Rabbi Trust to pay) the deceased Participant's remaining

Deferred Compensation Account Balance, calculated as provided above, to the Participant's estate (which shall be deemed the Beneficiary in such case). If a Participant designates an individual who is his or her spouse at the time of designation as Beneficiary, that designation shall be deemed to have been revoked automatically as of the date the named individual ceases to be the Participant's lawful spouse as a result of divorce or annulment of their marriage.

5.7. Unforeseeable Emergency.

(a) A Participant may request, in writing to the Plan Administrator, a withdrawal from his or her Deferred Compensation Account if the Participant experiences an "unforeseeable emergency". An unforeseeable emergency is a severe financial hardship to the Participant resulting from a sudden and unexpected illness or accident of the Participant or of the spouse or a dependent (as defined in Section 152(a) of the Code) of the Participant, loss of the Participant's property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant, as defined in Treas. Reg. ss. 1.457-6(c). The Plan Administrator, in its sole discretion, shall determine whether a Participant has experienced an unforeseeable emergency. Withdrawals of amounts because of an unforeseeable emergency are limited to the extent reasonably needed to satisfy the emergency need, which cannot be met with other resources of the Participant. The amount of such unforeseeable emergency withdrawal shall be subtracted first from the vested portion of the Participant's Retirement/Termination Sub-Account until depleted and then from the In Service Distribution Sub-Accounts (if any) beginning with the most distant. Values for purposes of administering this Section shall be determined on the date the Plan Administrator approves the amount of the unforeseeable emergency withdrawal, or such other date determined by the Plan Administrator.

(b) A Participant must submit a written request for a hardship payment to the Committee on such form and in the manner as is prescribed by the Committee. The hardship request must: (a) describe and certify the hardship condition and the severe financial need; (b) explain why the Participant's other resources are inadequate to allow him otherwise to satisfy the hardship; and (c) state the minimum amount the Participant needs to receive to meet the severe financial need. The Committee will have the sole discretion to determine whether a hardship exists and the appropriate action, if any.

5.8 Voluntary Withdrawal. In lieu of or in addition to a distribution under Section 5.7 above, a Participant who is an active Employee may request, in writing to the Plan Administrator, to withdraw up to 100% of the vested portion of his or her Deferred Compensation Account Balance (minus any amount deferred during the same Plan Year as the withdrawal is taken) at any time and for any reason, subject to a penalty of 10% of the amount requested. The remaining ten percent (10%) of the amount that the Participant requests shall be permanently forfeited from the Participant's Deferred Compensation Account and applicable Sub-Account(s) at the time the withdrawal payment is made and shall no longer be part of his or her Deferred Compensation Account or otherwise be available for payment to the Participant under the Plan. There is a minimum withdrawal amount of $2,500 (applied before the 10% penalty). Deferral elections shall be deemed revoked for the balance of the Plan

Year in which such withdrawal election is made and not permitted for the following Plan Year. The amount of such voluntary withdrawal shall be subtracted first from the vested portion of the Participant's Retirement/Termination Sub-Account until depleted and then from the In Service Sub-Accounts (if any) beginning with the Sub-Account that has a distribution date the furthest away in time. Values for purposes of administering this Section shall be determined on the date the Plan Administrator approves the amount of the withdrawal, or such other date determined by the Plan Administrator.

5.9 Change in Control. Any provision herein to the contrary notwithstanding, in the event a Participant shall incur a Retirement within two (2) years following a Change in Control, such Participant shall receive his or her remaining Deferred Compensation Account balance (including all Sub-Accounts) in a lump sum paid as soon as administratively practicable following the Valuation Date, which shall be the end of the month in which the Termination of Employment occurs. All payment schedule elections to the contrary shall be ignored.

5.10 Court Order. In the event a Court of competent jurisdiction orders a division of "plan assets" or a distribution of a Participant's Account or portion thereof pursuant to a QDRO or other valid Judgment or Court Order, the Plan Administrator shall treat such request as though it were a request for a Hardship withdrawal which satisfied the requirements of an unforeseen severe financial hardship and make a distribution to the Participant or to the party named as recipient in the QDRO, Judgment, or Court Order in the amount necessary to satisfy the QDRO, Judgment or Court Order.

5.11 Pro-rata Subtraction from Investment Options. In the event a distribution under this Article V (e.g. an installment payment, hardship or voluntary withdrawal, etc.) is less than the entire Sub-Account Balance and the Sub-Account is allocated over more than one Investment Option, the distribution shall be subtracted from each Investment Option in a pro-rata manner determined in the sole discretion of the Plan Administrator.

5.12 Code Section 162(m) Postponement. Any provision in this Plan (other than Section 5.9 and 5.10 above) to the contrary notwithstanding, if a Participant is a "covered employee" within the meaning of Code Section 162(m)(3) for the Company tax year in which all or any portion of his or her Deferred Compensation Account is to be paid, the Company may postpone the payment to the first tax year in which such Participant is no longer a "covered employee" to the extent the Company reasonably determines that such postponement is necessary to avoid the disallowance of compensation deductions under Code Section 162(m) with respect to such Participant.

5.13 Payments to Other Persons. The Company shall only be required to pay or cause to be paid amounts due under the Plan to the Participant, Beneficiary or other legal representative of the foregoing (custodian, personal representative, guardian, trustee, etc.). Any payment by the Company of amounts to a parent or duly appointed guardian of a Beneficiary who is a minor child, or to a duly appointed guardian or personal representative of a Participant or Beneficiary who has been adjudicated to be legally incompetent, shall fully discharge the Employers' obligations with respect to the amount so paid. In the event of any dispute as to the proper payee of amounts hereunder, any Employer may file a judicial action with any court having jurisdiction over the parties and matter to determine the proper payee and may implead or otherwise pay the Deferred Benefits to the court in which such action is pending in full satisfaction of its obligations and liabilities hereunder. Upon such payment, the Company will have no further liability for the Deferred Compensation Account or other amounts in question.

## ARTICLE VI
## ADMINISTRATION

6.1 Plan Administration. This Plan shall be administered by the Plan Administrator, which shall have discretionary authority to make, amend, interpret and enforce all appropriate rules and regulations for the administration of this Plan and to utilize its discretion to decide or resolve any and all questions, including but not limited to eligibility for benefits and interpretations of this Plan and its terms, as may arise in connection with the Plan. Claims for benefits shall be filed with the Plan Administrator and resolved in accordance with the claims procedures in Article IX.

6.2 Withholding. The Employers shall have the right to withhold from any payment made under the Plan (or any amount deferred into the Plan) any taxes required by law to be withheld in respect of such payment (or deferral).

6.3 Indemnification. The Company shall indemnify and hold harmless each employee, officer, director, agent or organization, to whom or to which is delegated duties, responsibilities, and authority with respect to administration of the Plan, against all claims, liabilities, fines and penalties, and all expenses reasonably incurred by or imposed upon him or it (including but not limited to reasonable attorney fees) which arise as a result of his or its actions or failure to act in connection with the operation and administration of the Plan to the extent lawfully allowable and to the extent that such claim, liability, fine, penalty, or expense is not paid for by liability insurance purchased or paid for by the Company. Notwithstanding the foregoing, the Company shall not indemnify any person or organization if his or its actions or failure to act are due to gross negligence or willful misconduct or for any such amount incurred through any settlement or compromise of any action unless the Company consents in writing to such settlement or compromise.

6.4 Expenses. The expenses of administering the Plan shall be paid by the Company, which shall have a right to contribution and reimbursement from Participating Employers for the expenses so paid on behalf of Participants employed (or formerly employed) by that Participating Employer.

6.5 Delegation of Authority. In the administration of this Plan, the Plan Administrator and Committee may, from time to time, employ agents and delegate to them such administrative duties as it sees fit, and may from time to time consult with legal counsel who may be legal counsel to the Company.

6.6 Binding Decisions or Actions. The decision or action of the Plan Administrator in respect of any question arising out of or in connection with the administration, interpretation and application of the Plan and the rules and regulations thereunder shall be final and conclusive and binding upon all persons having any interest in the Plan.

## ARTICLE VII
## AMENDMENT AND TERMINATION

7.1 Amendment and Termination. The Plan is intended to be permanent, but the Company, acting through the Committee, may at any time modify, amend, or terminate the Plan provided that such modification, amendment or termination shall not cancel, reduce, or otherwise adversely affect

the amount of any Participant's accrued Account Balance (or, except as otherwise provided in Section 7.1 or 7.2 below, any form of payment elected) calculated immediately prior to the time of the action effecting such modification, amendment, or termination, without the consent of the Participant. Notwithstanding the foregoing, the Committee shall be permitted upon Plan termination to instruct the Plan Administrator to pay each Participant (without such Participant's consent) a lump sum in the amount of such Participant's Account Balance as of the date of such Plan termination.

7.2 Adverse Income Tax Determination. Notwithstanding anything to the contrary in the Plan, if any Participant receives a deficiency notice from the United States Internal Revenue Service asserting income taxes due on deferred amounts due to a finding of constructive receipt of amounts payable under the Plan, or if legislation is passed which causes current income taxation of deferred amounts, Company contributions, and/or the investment earnings attributed thereto due to any Participant withdrawal right or other Plan provision, the Committee, in its sole discretion, may terminate the Plan or such Participant's participation in the Plan, and/or may declare null and void any Plan provision with respect to affected Participants and/or may make distributions from the Plan to affected Participants of such portions of such Participant's Account Balance as the Committee deems appropriate in order to ameliorate the adverse income tax effect caused by the IRS finding or new legislation. In addition, it is intended that this Plan comply with all provisions of the Internal Revenue Code and regulations and rulings in effect from time to time regarding the permissible deferral of compensation and taxes thereon, and it is understood that this Plan does so comply. If the laws of the United States or of any relevant state are amended or construed in such a way as to make this Plan (or its intended deferral of compensation and taxes) in whole or in part void, then the Deferred Compensation Committee, in its sole discretion, may choose to terminate the Plan or it may (to the extent it deems practicable) give effect to the Plan in such a manner as it deems will best carry out the purposes and intentions of this Plan.

## ARTICLE VIII

## INFORMAL FUNDING

8.1 General Assets. All benefits in respect of a Participant under this Plan shall be paid directly from the general funds of the applicable Employers, or a Rabbi Trust created by the Company and funded by the Employers for the purpose of informally funding the Plan, and other than such Rabbi Trust, if created, no special or separate fund shall be established and no other segregation of assets shall be made to assure payment. No Participant, spouse or Beneficiary shall have any right, title or interest whatever in or to any investments which an Employer may make to aid the Employer in meeting its obligations hereunder. Nothing contained in this Plan, and no action taken pursuant to its provisions, shall create or be construed to create a trust of any kind, or a fiduciary relationship, between an Employer or any if its subsidiaries or affiliated companies and any Employee, spouse, or Beneficiary. To the extent that any person acquires a right to receive payments from an Employer hereunder, such rights are no greater than the right of an unsecured general creditor of the Employer.

8.2 Rabbi Trust. The Company may, at its sole discretion, establish a grantor trust, commonly known as a Rabbi Trust, as a vehicle for accumulating the assets needed to pay the promised benefit, but the Company shall be under no obligation to establish any such trust or any other informal funding vehicle.

## ARTICLE IX

CLAIMS

9.1 Filing a Claim. Any controversy or claim arising out of or relating to the Plan shall be filed with the Plan Administrator which shall make all determinations concerning such claim. Any decision by the Plan Administrator denying such claim shall be in writing and shall be delivered to the Participant or Beneficiary filing the claim ("Claimant"). Such decision shall set forth the reasons for denial in plain language. Pertinent provisions of the Plan document shall be cited and, where appropriate, an explanation as to how the Claimant can perfect the claim will be provided, including a description of any additional material or information necessary to complete the claim, and an explanation of why such material or information is necessary. The claim denial also shall include an explanation of the claims review procedures and the time limits applicable to such procedures, including a statement of the Claimant's right to bring a civil action under Section 502(a) of ERISA following an adverse decision on review. This notice of denial of benefits will be provided within 90 days of the Plan Administrator's receipt of the Claimant's claim for benefits. If the Plan Administrator fails to notify the Claimant of its decision regarding the Claimant's claim, the claim shall be considered denied, and the Claimant shall then be permitted to proceed with an appeal as provided in this Article. If the Plan Administrator determines that it needs additional time to review the claim, the Plan Administrator will provide the Claimant with a notice of the extension before the end of the initial 90-day period. The extension will not be more than 90 days from the end of the initial 90-day period and the notice of extension will explain the special circumstances that require the extension and the date by which the Plan Administrator expects to make a decision.

9.3 Appeal. A Claimant who has been completely or partially denied a benefit shall be entitled to appeal this denial of his claim by filing a written appeal with the Plan Administrator no later than sixty (60) days after: (a) receipt of the written notification of such claim denial, or (b) the lapse of ninety (90) days without an announced decision notice of extension. A Claimant who timely requests a review of his or her denied claim (or his or her authorized representative) may review, upon request and free of charge, copies of all documents, records and other information relevant to the denial and may submit written comments, documents, records and other information relevant to the claim to the Plan Administrator. The Plan Administrator may, in its sole discretion and if it deems appropriate or necessary, decide to hold a hearing with respect to the claim appeal. Following its review of any additional information submitted by the Claimant, the Plan Administrator shall render a decision on its review of the denied claim in the following manner:

(a) The Plan Administrator shall make its decision regarding the merits of the denied claim within 60 days following the Plan Administrator's receipt of the appeal (or within 120 days after such receipt, in a case where there are special circumstances requiring extension of time for reviewing the appealed claim). It shall deliver the decision to the Claimant in writing. If an extension of time for reviewing the appeal is required because of special circumstances, written notice of the extension shall be furnished to the Claimant prior to the commencement of the extension. The notice will indicate the special circumstances requiring the extension of time and the date by which the Plan Administrator expects to render the determination on review.

(b) The review will take into account comments, documents, records and other information submitted by the Claimant relating to the claim without regard to whether such information was submitted or considered in the initial benefit determination.

(c) The decision on review shall set forth a specific reason for the decision, and shall cite specific references to the pertinent Plan provisions on which the decision is based.

(d) The decision on review will include a statement that the Claimant is entitled to receive, upon request and free of charge, reasonable access to and copies of all documents, records, or other information relevant to the Claimant's claim for benefits.

(e) The decision on review will include a statement describing any voluntary appeal procedures offered by the plan and a statement of the Claimant's right to bring an action under Section 502(a) of ERISA.

9.4 Limitation on Legal Actions. Any suit, claim or other judicial action by a Claimant seeking benefits under the Plan or otherwise arising with respect to the Plan: (a) shall be governed by ERISA; (b) may be commenced and filed, if at all, only within one (1) year after the final denial of benefits under the Plan's claims procedure as outlined above (and, if not commenced and filed within that one year period, shall be time-barred, ineffective and prohibited); and (c) may not be commenced unless and until the Claimant has exhausted his or her administrative remedies hereunder. Accordingly, a Claimant may not bring any legal action relating to a claim for benefits under the Plan unless and until the Claimant has followed the claims procedures under the Plan and exhausted his or her administrative remedies under such claims procedures. ARTICLE X GENERAL CONDITIONS

10.1 Anti-assignment Rule. No interest of any Participant, spouse or Beneficiary under this Plan and no benefit payable hereunder shall be assigned as security for a loan, and any such purported assignment shall be null, void and of no effect, nor shall any such interest or any such benefit be subject in any manner, either voluntarily or involuntarily, to anticipation, sale, transfer, assignment or encumbrance by or through any Participant, spouse or Beneficiary.

10.2 No Legal or Equitable Rights or Interest. No Participant or other person shall have any legal or equitable rights or interest in this Plan that are not expressly granted in this Plan. Participation in this Plan does not give any person any right to be retained in the service of the Company or any other Participating Employer. The right and power of the Company or any other Participating Employer to dismiss or discharge an Employee at will is expressly reserved.

10.3 No Employment Contract. Nothing contained herein shall be construed to constitute a contract of employment between an Employee and the Employers.

10.4 Headings. The headings of Sections are included solely for convenience of reference, and if there is any conflict between such headings and the text of this Plan, the text shall control.

10.5 Invalid or Unenforceable Provisions. If any provision of this Plan shall be held invalid or unenforceable, such invalidity or unenforceability shall not affect any other provisions hereof and the Plan Administrator may elect in its sole discretion to construe such invalid or unenforceable provisions in a manner that conforms to applicable law or as if such provisions, to the extent invalid or unenforceable, had not been included.

10.6 Governing Law and Dispute Resolution. To the extent not preempted by ERISA, the laws of the State of Utah shall govern the construction and administration of the Plan. By submitting a Compensation Deferral Agreement and in consideration of their eligibility to participate in the Plan, each Participant agrees, covenants and acknowledges (as do the Employers) that: (a) exclusive jurisdiction and venue over any action or law suit under or with respect to this Plan shall rest in the United States District Court situated in Salt Lake City, Utah and the Utah State Courts located in salt Lake City, Utah, (b) consents and submits to the jurisdiction of such courts over him or her in any matter or controversy arising under or with respect to the Plan; (c) agrees not to assert any objection or challenge to the personal and subject matter jurisdiction of such courts in matters arising under or with respect to the Plan; and (d) to the extent permitted by applicable law, waives the right to a jury trial in any action arising under or with respect to the Plan.

10.7 Disclaimer. The Employers intend that the Plan, together with the Deferred Compensation Agreements, shall establish a plan deferred of compensation. However, the Employers and their owners, employees, officers, directors and agents make no representation or warranty of any nature or kind whatever relative to the binding nature of the Plan or with respect to any tax consequences, law, statute, rule, regulation, decree of any taxing entity of the United States Government or of any of its individual states (including the District of Columbia) or subdivisions thereof.

10.8 Transition. All elective deferrals for Plan Years commencing prior to the Effective Date shall be made in accordance with the provisions of the Predecessor Plans, but shall be held, administered and distributed on and after January 1, 2004 in accordance with the provisions set forth in this restated Plan document. All elective deferrals with respect to Plan Years commencing after the Effective Date shall be made in accordance with the provisions hereof. By executing and delivering a Deferred Compensation Agreement hereunder, each Participant consents to the amendment and restatement of the Predecessor Plans to read as set forth herein and agrees that all amounts previously deferred under the Predecessor Plans shall, on and after the effective date of such initial Deferred Compensation Agreement, be held, administered and applied under the terms of this Plan document as amended from time to time in the future.

IN WITNESS WHEREOF, the Company has caused this amended and restated Plan to be adopted, this 1st day of January, 2004.

Merit Medical Systems, Inc.

By: _____
Name: _____
Its: _____

The following Participating Employers hereby adopt the Plan:

MERIT SERVICES, INC.
By: _____
Name: _____
Its: _____
Effective Date of Adoption:_____

MERIT SENSOR SYSTEMS, INC.
By: _____
Name: _____
Its: _____
Effective Date of Adoption: _____

Exhibit 21

SUBSIDIARIES OF MERIT MEDICAL SYSTEMS, INC.

| Name | Jurisdiction of Incorporation/Organization |
|---|---|
| Merit Holdings, Inc. | Utah |
| Merit Sensor Systems, Inc. | Utah |
| Merit Medical International, Inc. | U.S. Virgin Islands |
| Merit Medical Services, L.P. | Utah |
| Merit Services, Inc. | Utah |
| Merit Medical Belgium B.V.B.A. | Belgium |
| Merit Medical France EURL | France |
| Merit Medical Germany GmbH | Germany |
| Merit Medical UK Limited | United Kingdom |
| Merit Medical Nederland B.V. | Netherlands |
| Merit Medical Ireland Limited | Ireland |

Exhibit 23.1

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement Nos. 333-10509, 333-92053, 333-58112, and 333-58162 of Merit Medical Systems, Inc. on Form S-8 of our report dated February 27, 2004 (which expresses an unqualified opinion and includes an explanatory paragraph relating to the adoption of Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, on January 1, 2002, as discussed in Notes 1 and 3), appearing in this Annual Report on Form 10-K of Merit Medical Systems, Inc. and subsidiaries for the year ended December 31, 2003.

/s/ DELOITTE & TOUCHE LLP
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Salt Lake City, Utah
March 11, 2004

EXHIBIT 31.1

Certification of Chief Executive Officer

I, Fred P. Lampropoulos, certify that:

1. I have reviewed this Annual Report on Form 10-K of Merit Medial Systems, Inc for the Year ended December 31, 2003;

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

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

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

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

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

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



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

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

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

Date: March 10, 2004

/s/: FRED P. LAMPROPOULOS

Fred P. Lampropoulos, Chief Executive Officer

EXHIBIT 31.2

Certification of Chief Financial Officer

I, Kent W. Stanger, certify that:

1. I have reviewed this Annual Report on Form 10-K of Merit Medial Systems, Inc for the Year ended December 31, 2003;

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

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

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

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

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

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



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

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

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

Date: March 10, 2004

/s/:KENT W. STANGER

Kent W. Stanger, Chief Financial Officer

EXHIBIT 32.1

Certification of Chief Executive Officer

In connection with this Annual report on Form 10-K of Merit Medical Systems, Inc., for the Year ended December 31, 2003, I, Fred P. Lampropoulos, Chief Executive Officer of Merit Medical Systems, Inc., certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The report fully complies with the requirements of Section 13(a) or 15 (d) of the Securities Exchange Act of 1934; and

(2) The information contained in this report fairly presents, in all material respects, the financial condition and results of operations of Merit Medical Systems, Inc

Date: March 10, 2004

/s/Fred P. Lampropoulos
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Fred P. Lampropoulos
Chairman of the Board, President
and Chief Executive Officer

EXHIBIT 32.2

Certification of Chief Financial Officer

In connection with this Annual report on Form 10-K of Merit Medical Systems, Inc., for the Year ended December 31, 2003, I, Kent W. Stanger, Chief Financial Officer of Merit Medical Systems, Inc., certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The report fully complies with the requirements of Section 13(a) or 15 (d) of the Securities Exchange Act of 1934; and

(2) The information contained in this report fairly presents, in all material respects, the . financial condition and results of operations of Merit Medical Systems, Inc

Date: March 10, 2004

/s/Kent W. Stanger
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Kent W. Stanger
Chief Financial Officer