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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, 1996 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 (Commission File No.) (IRS Employer  
of incorporation) Identification No.)

1600 West Merit Parkway  
South Jordan, Utah 84095

(Address of principal executive offices, including zip code)

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

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

None

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

Title of Class  
Common Stock, No Par Value

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

The aggregate market value of the Common Stock held by non-affiliates of the Registrant, based upon the closing sale price of the Common Stock on the NASDAQ National Market System on March 26, 1997, was approximately \$51,248,225. Shares of Common Stock held by each officer and director and by each person who may be deemed to be an affiliate have been excluded.

As of March 26, 1997 the Registrant had 7,218,514 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The Registrant's definitive Proxy Statement relating to the Annual Meeting of Shareholders scheduled for May 21, 1997 is incorporated by reference in Part III of this report.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [x]

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## PART I

## Item 1. Business.

## GENERAL

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

The Company's strategy is to offer a broad line of innovative, disposable products for use in angiography, angioplasty and similar procedures and to increase market acceptance and penetration for both its existing and new products in the U.S. and in international markets. Longer term, the Company's strategy is to extend the application of its plastics molding, electronic and sensor-based technologies to develop products for diagnostic and interventional procedures in additional markets such as neuroradiology, urology and critical care. The Company's sales of products in combination and in custom kits have increased as additions have been made to the Company's product lines. In 1996, approximately 60% of the Company's sales were made directly to U.S. hospitals and approximately 16% of sales were made to custom packagers who also distribute to U.S. hospitals. Approximately 24% of the Company's sales in 1996 were made in international markets.

The Company was organized in July 1987 as a Utah corporation. In July 1994 the Company purchased controlling interest in Sentir, Inc., a California-based manufacturer of silicon sensors. The Company has also organized subsidiaries in Ireland, Germany, France, the United Kingdom, Belgium, and the Netherlands to conduct its international business. On January 31, 1997 the Company purchased the operating assets and product lines of Universal Medical Instrument Corp. ("UMI"). The Company also leased from UMI a 32,000 square foot facility in Saratoga Springs New York. The Company's principal offices are located in a manufacturing and office facility at 1600 West Merit Parkway, South Jordan, Utah 84095, and its telephone number is (801) 253-1600. See "Item 2. Properties."

## PRODUCTS

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

On January 31, 1997 Merit Medical acquired four new product lines and

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

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

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

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

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

The Basix is a disposable inflation device which incorporates a conventional analog pressure gauge, which is mounted on the barrel of the inflation syringe. The Basix more closely resembles devices marketed by the Company's competitors but incorporates the Company's proprietary design features and benefits. The Company believes that the Basix represents a significant addition to its line of inflation devices that will contribute to sales where cost considerations are important, such as in certain international markets.

The Limited is a disposable inflation device developed for use in peripheral angioplasty procedures. The Limited does not measure or display pressures exerted during the procedures but the syringe incorporates the Company's proprietary design features which provide clarity, ease of use and other benefits.

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

**Control Syringes.** The Company's disposable control syringes are utilized for one-handed control of the injection of contrast media and other fluids during angiography and angioplasty procedures. The control syringes are molded from polycarbonate material which is stronger than glass and other plastics used in the industry. The Company offers different models and sizes of the control syringes with varying features which respond primarily to physician

preferences. These features include different configurations of syringe handles and plungers and connections which allow operation of the syringe in a fixed or rotating position. Merit recently introduced a new line of high quality control syringes with a very sensitive low resistance plunger tip (Smart Tip).

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

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Specialty Syringes. In April 1991, the Company introduced its Merit Medallion syringes, a line of disposable, color coded specialty syringes for injection of medications, flushing of manifolds and other general purposes. These syringes are molded of polycarbonate material for added strength and are available in hundreds of size, color and custom printing combinations. The color coding allows a clinician to assign a color for each medication to be dispensed and to differentiate syringes by their contents. The syringes can also be custom printed to the specifications of the user. In response to customer requests, the Company has developed and added additional sizes of its specialty syringes which have applications in dispensing various medication required in a broader range of peripheral procedures. The Company believes that the design, color coding and materials used in its specialty syringes contribute to patient safety and more efficient procedures. The specialty syringes are sold separately but are an important component of the Company's custom kits.

High Pressure Contrast Injection Line and Sherlock Connectors. During angiographic and diagnostic radiology procedures, contrast media must be injected through a catheter into the blood vessel. This is sometimes accomplished by a mechanical injector which can generate pressures up to 1200 psi, and requires tubing that can withstand these pressures. In April 1991, the Company introduced its high pressure specialty tubing with its proprietary Sherlock connectors. The specialty tubing is clear so that the fluid path can be observed and debubbled. Sherlock connectors allow coupling and uncoupling of tubing with injectors, syringes and manifolds without overtightening or breakage. The Company is currently offering specialty tubing which can handle pressures ranging from 500 to 1200 psi. The specialty tubing with Sherlock connectors is an important component of custom kits.

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

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

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

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

Hemostasis Valves. The Passage and Access-9 hemostasis valves are used

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

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

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

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

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

Mentor. The Merit Mentor Simulator/Tester, was developed to augment the use of our Merittrans Disposable Transducer. The Mentor is used to simulate a pressure to the Merittrans which allows the clinician to verify the calibration of the patient monitoring system before the case begins.

#### MARKETING AND SALES

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

When a product suggestion demonstrates sustainable competitive advantage, meets customer needs, fits strategically and technologically, and has good potential financial return, a "project team" is chartered with individuals from Marketing, Engineering, Manufacturing and Quality Assurance. This team quickly and efficiently clarify the customer requirements, integrate the design, compile all necessary documentation and testing and prepare the product for market introduction. The Company strongly believes that one of its marketing strengths is its capacity to rapidly conceive, design, develop, and introduce new products.

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

International Sales. Outside of the U.S., the Company's products are presently sold by 42 independent dealer organizations and 13 direct sales representatives in Germany, France, the United Kingdom, Canada, Belgium, the Netherlands, and Ireland. In 1996, the Company's international sales grew by 43% and accounted for approximately 24% of total sales. The Company has appointed a vice president for international sales and established an international sales office in Paris, France. With the recent and planned additions to its product lines, the Company believes that international sales will continue to increase.

International dealers are required to inventory products and sell directly to customers within defined sales territories. Each of the Company's

products must be approved for sale under the laws of the country in which they are sold. International dealers are responsible for compliance with all applicable laws and regulations in their respective countries.

#### CUSTOMERS

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

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Sales to the Company's single largest customer, a foreign dealer, accounted for 7.1% of total sales during the year ended December 31, 1996. In 1996, approximately 60% of the Company sales were made directly to domestic hospitals, 16% to custom packagers and packers and 24% to international markets.

#### RESEARCH AND DEVELOPMENT

The Company believes that one of its important strengths is its ability to quickly adapt its expertise and experience in injection molding and to apply its electronic and sensor technologies to a perceived need for a new product or product improvement. The Company's development efforts are presently focused on disposable, innovative single-patient or single-use items which can be included in the Company's custom kits or sold separately. Longer-term projects include use of sensor-based technologies in a variety of applications and additional inflation devices with added capacities and features. With the addition of the technologies acquired from UMI and 14 new R&D professionals there is a new focus on interventional vascular access products, such as needles, guide wires, catheters, introducers. Certain of the Company's executive officers also devote a substantial portion of their time to research and development. Research and development expenses were \$2,069,882, \$2,330,324, and \$ 2,533,171 in 1994, 1995 and 1996, respectively. There was no customer sponsored research and development. The Company anticipates that such expenses will continue at approximately 5.0% to 7.0% of sales.

#### MANUFACTURING

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

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

In December 1996 the Company began operation of a new 26,500 square foot facility in Galway Ireland. This facility will be used as the administrative and distribution headquarters to support the European direct sales force. The facility will also house the research and development team developing a new PTCA guide wire as well as other new products. Beginning the second quarter of 1997 the Company will startup manufacturing operations for several new and existing product lines, such as custom kits, the Basix inflation device and the new PTCA guide wire.

In February 1997 the Company entered into an 18 month lease (with options to extend for three additional two year terms) of a 32,000 square foot facility in Saratoga Springs, New York from UMI, and along with acquired assets began manufacturing the existing product lines of UMI.

The Company does not believe that it is dependent on any single supplier and considers its relationship with its suppliers to be good.

#### COMPETITION

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

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

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

#### PATENTS, PATENT APPLICATIONS, LICENSES, TRADEMARKS AND COPYRIGHTS

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

Corresponding patent applications covering the claims included in the Company's U.S. patents and patent applications have been initiated in several foreign countries. The Company deems its patents and patents pending to be materially important to its business but does not believe its business is dependent on securing such patents. The Company negotiated a license in 1992 with respect to patents concerning technology utilized in its IntelliSystem and Monarch inflation devices in consideration of a 5.75% ongoing royalty not to exceed \$450,000 annually. Royalties paid in each of 1996, 1995 and 1994 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 competitive advantages or will not be challenged by third parties or that the patents of others will not have an adverse effect on the ability of the Company to conduct its business. The Company could incur substantial costs in seeking enforcement of its patents against infringement or the unauthorized use of its proprietary technology by others or in defending itself against similar claims of others. Insofar as the Company relies on trade secrets and proprietary know-how to maintain its competitive position, there can be no assurance that others may not independently develop similar or superior technologies.

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

#### REGULATION

The development, testing, packaging, labeling and marketing of medical devices and the manufacturing procedures relating to these devices are regulated under the Federal Food, Drug and Cosmetic Act and additional regulations promulgated thereunder. In general, these statutes and regulations require that manufacturers adhere to certain standards designed to ensure the safety and effectiveness of medical devices. The Company employs a director of regulatory affairs who is responsible for compliance with all applicable FDA regulations.

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Although the Company believes it is currently in material compliance with all applicable FDA requirements, the Company's business could be adversely affected by failure to comply with all applicable FDA and other government regulations presently existing and promulgated in the future.

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

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

#### EMPLOYEES

As of March 23, 1997, the Company employed 755 persons, including 545 in manufacturing, 87 in marketing, 68 in engineering, research and development and 55 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 employees with requisite training and skill is available. The Company has confidentiality agreements with its key employees, including each of its executive officers. None of the Company's employees are represented by a union or other collective bargaining group and management of the Company believes that its relations with its employees are good.

Item 2. Properties.

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

The Company continues to lease approximately 25,000 square feet at its former location which are being subleased to third parties.

The Company is leasing a building of approximately 26,500 square feet in Galway County Galway, Republic of Ireland, as its principal office and future manufacturing and research and development facility for European operations. The property has been leased and is being improved and equipped on terms deemed favorable to the Company in connection with economic development incentives and grants provided by the Irish Government. This lease is for 20 years at approximately \$156,000 per year less a 50% subsidy from the Irish government for 3 years. The Company also has a perpetual purchase option available at favorable terms through the term of the lease.

The Company has also acquired approximately 1 1/2 acres and a building of approximately 25,000 square feet in Castlerea, County Roscommon, Republic of Ireland.

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The Company also entered into a short term (18 months, with options to extend for three additional two year terms) lease of a 32,000 square foot facility in Saratoga Springs New York with very favorable terms.

Item 3. Legal Proceedings.

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

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

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

PART II

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

The "Market Information" included in the Company's Annual Report to Shareholders for the year ended December 31, 1996 furnished herewith to the Commission as Exhibit 13.1 to this report on Form 10-K, is incorporated herein by reference.

Item 6. Selected Financial Data.

The "Selected Financial Data" included in Company's Annual Report to Shareholders for the year ended December 31, 1996 furnished herewith to the Commission as Exhibit 13.1 to this report on Form 10-K, is incorporated herein by reference.

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

The "Management's Discussion and Analysis of Financial Condition" included in the Company's Annual Report to Shareholders for the year ended December 31, 1996 furnished herewith to the Commission as Exhibit 13.1 to this report on Form 10-K, is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data.

The Company's financial statements and notes included in the Company's Annual Report to Shareholders for the year ended December 31, 1996 furnished herewith to the Commission as Exhibit 13.1 to this report on Form 10-K are incorporated herein by reference.

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

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

PART III

Item 10, 11, 12 and 13.

These items are incorporated by reference to the Company's definitive Proxy Statement relating to the Annual Meeting of Shareholders scheduled for May 21, 1997. The definitive Proxy Statement will be filed with the Commission not later than 120 days after December 31, 1996, pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended.

PART IV

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

(a) Documents Filed as Part of this Report:

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

- Independent Auditors' Report
- Balance Sheets as of December 31, 1996 and 1995
- Statements of Operations for the Years Ended December 31, 1996, 1995 and 1994
- Statements of Stockholders' Equity for the Years Ended December 31, 1996, 1995 and 1994
- Statements of Cash Flows for the Years Ended December 31, 1996, 1995 and 1994
- Notes to Financial Statements

(b) Reports on Form 8-K:

None.

(c) Exhibits:

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

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

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Description	Exhibit No.
13.1 Annual Report to Shareholders for the year ended December 31, 1996. Filed herewith. Certain portions of this exhibit are incorporated by reference into this report on Form 10-K; except as so incorporated by reference, the Annual Report to Shareholders is not deemed filed as part of this report on Form 10-K.	
24.1 Consent of Independent Public Accountants.	Filed herewith
27 Financial Data Schedule	Filed herewith

\* These exhibits are incorporated herein by reference.

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

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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 27, 1997.

MERIT MEDICAL SYSTEMS, INC.

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on March 27, 1997.

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

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Pursuant to item 601(b)(13)(ii) of Regulation S-K, only those portions of the Merit Medical Systems, Inc. 1996 Annual Report to Shareholders which are incorporated by reference into the Registrant's Annual Report on Form 10-K are filed in electronic format as an exhibit to such Annual Report on Form 10-K.

Merit  
REPORT  
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#### EXECUTIVE OFFICERS

Fred P. Lampropoulos  
Chairman, President/Chief Executive Officer

Kent W. Stanger  
Secretary-Treasurer, Chief Financial Officer

Brian L. Ferrand  
Vice President, Sales and Marketing

Leigh Weintraub  
Vice President, Operations

#### BOARD OF DIRECTORS

Fred P. Lampropoulos  
Chairman, President/Chief Executive Officer

Kent W. Stanger  
Secretary-Treasurer, Chief Financial Officer

Rex C. Bean, Private Investor  
Ogden, Utah

Richard W. Edelman, Vice President  
Southwest Securities, Inc.  
West Palm Beach, Florida

James J. Ellis  
Senior Executive  
Mutual of New York, Dallas, Texas

Michael E. Stillabower, M.D.  
Chief, Cardiology  
Medical Center of Delaware  
Wilmington, Delaware

CORPORATE OFFICES  
Merit Medical Systems, Inc.  
1600 West Merit Parkway  
South Jordan, Utah 84095  
(801) 253-1600

INDEPENDENT ACCOUNTANTS  
Deloitte & Touche LLP  
Salt Lake City, Utah

LEGAL COUNSEL  
Kimball, Parr, Waddoups, Brown & Gee  
Securities/General Counsel  
Workman, Nydegger & Jensen  
Patent Counsel

FORM 10-K  
Merit Medical Systems, Inc. filed an annual report on Form 10-K with the Securities and Exchange Commission for the fiscal year ended December 31, 1996. A copy may be obtained by written request from Kent W. Stanger, Secretary, at the company offices.

ANNUAL MEETING  
All shareholders are welcome to attend our Annual Meeting on Wednesday, May 21, 1997 at 3:00 p.m. at the company's corporate offices in South Jordan, Utah.

Merit  
REPORT  
MAGAZINE

STOCK TRANSFER AGENT/REGISTRAR

Atlas Stock Transfer  
5899 South State Street  
Salt Lake City, Utah 84107

PRIMARY MARKET MAKERS

Dain Bosworth Incorporated  
Piper Jaffray Companies Inc.  
Mayer & Schweitzer, Inc.  
Herzog, Heine, Geduld, Inc.  
Sherwood Securities Corp.  
Nash Weiss/Div. of Shatkin Inv.  
Knight Securities L.P.  
Wilson-Davis & Co.  
Olsen Payne &  
Company  
Wien Securities Corp.  
Ernst & Company  
Oscar Gruss & Son, Inc.

MARKET INFORMATION

The Company's common stock is traded on the NASDAQ National Market System under the symbol "MMSI." As of December 31, 1996, there were 6,942,290 shares of common stock outstanding. The following chart sets forth the high and low closing sale prices for the company's common stock for the last two years:

	High	Low
1996		
First Quarter	\$7.88	\$6.63
Second Quarter	11.75	7.00
Third Quarter	9.25	7.25
Fourth Quarter	8.50	6.50
1995		
First Quarter	\$5.50	\$4.25
Second Quarter	10.00	5.44
Third Quarter	8.75	6.75
Fourth Quarter	7.13	5.69

As of March 27, 1997, the Company had 319 shareholders of record, not including shareholders whose shares are held in securities position listings.

The Company has never declared or paid any cash dividends on its common stock. The Company intends to retain any earnings for use in its business and does not anticipate paying any cash dividends in the foreseeable future.

INVESTOR RELATIONS COUNSEL Jordan Richard Assoc.  
Salt Lake City, Utah, (801) 595-8611

FOR MORE INFORMATION, CONTACT  
Kent W. Stanger, Chief Financial Officer  
Merit Medical Systems, Inc.  
(801) 253-1600

Merit Medical Systems, Inc. and Subsidiaries  
Selected Financial Data

	1996	1995	1994	1993	1992
Operating Data:					
Sales	\$50,455,766	\$42,587,284	\$33,324,245	\$25,431,180	\$18,393,338
Cost of sales	29,319,617	24,987,998	18,999,015	13,653,379	8,653,792
Gross profit	21,136,149	17,599,286	14,325,230	11,777,801	9,739,546
Selling, general, and administrative expenses	14,311,049	12,808,805	10,232,215	7,836,018	6,958,011
Research and development expenses	2,533,171	2,330,324	2,069,882	1,306,782	1,044,277
Income from operations	4,291,929	2,460,157	2,023,133	2,635,001	
Other income (expense)	(661,777)	(459,462)	(29,868)	4,860	(46,988)
Income before income tax expense	3,630,152	2,000,695	1,993,265	2,639,861	1,690,270
Income tax expense	1,277,431	700,418	775,453	799,650	502,856
Minority interest in (income) loss of subsidiary	(190,113)	(79,040)	33,035		
Net income	2,162,608	1,221,237	1,250,847	1,840,211	1,187,414
Net income per share	\$ .31	\$ .18	\$ .19	\$ .28	\$ .19
Weighted average shares outstanding	7,051,911	6,851,164	6,678,041	6,679,758	6,310,499
Balance Sheet Data:					
Working capital	\$12,761,211	\$ 9,518,971	\$ 9,032,899	\$10,226,533	\$7,392,771
Total assets	41,718,553	34,503,858	27,024,267	20,479,384	16,360,112
Long-term debt	4,822,126	1,778,953	827,592	841,921	810,418
Stockholders' equity	\$22,487,123	\$19,264,525	\$17,537,029	\$15,705,152	\$13,286,782

## Merit Medical Systems, Inc. and Subsidiaries Management's Discussion

### OVERVIEW

The Company experienced significant improvements in many aspects of its business for the year ended December 31, 1996. Sales increased, particularly in Europe, as conversion to a direct sales force in Europe is well underway (up 179% for 1996 compared to 1995). The decline in selling, general and administrative expense, as a percentage of sales, reflects establishment of the direct sales force in Germany, France and the United Kingdom and increasing production by the European sales force. Sentir, a majority-owned (72%) subsidiary, experienced a significant year-over-year improvement in net income (up 132% in 1996 compared to 1995). Cash flow from operations in 1996 was a positive \$3.4 million, an improvement of over \$5.2 million as compared to 1995. Gross margin as a percentage of sales increased, compared to the prior year, for the first time since 1991. Net income was up 77% in 1996 over 1995, reflecting all of the positive trends.

Results in 1996, though gratifying, were tempered by several factors, particularly the need to continue substantial expenditures related to development and introduction of technologies and new products and preparation for manufacturing of those products in Ireland. These expenses, together with costs incurred in establishing and supporting the European sales force, resulted in approximately \$1 million in net losses from European operations. The Company continues to experience pressures on margins from price competition, particularly in Europe, as more competitors enter European markets. As markets for the Company's existing product lines begin to mature, the Company's future sales growth and margin improvements are expected to come from the introduction of new technologies and products, including needles, guide wires, sheath introducers and catheters. The Company's near-term focus will be on these several objectives. The resulting investment and startup costs required to support introduction and sale of new products and to support the direct sales in Europe will necessarily impact near-term profitability. Sales increases and margin improvements related to these new product lines are expected to begin later in 1997 and continue to ramp up in the immediate future. Selling, general and administrative expenses continue to reflect improved efficiencies and higher sales production, particularly in Europe. Sentir must broaden its markets to sustain revenue growth and profitability.

In January 1997, the Company acquired Universal Medical Investments Corp. ("UMI"), a New York based manufacturer of needles, guide wires, sheath introducers and catheters. The Company will incur substantial costs of integrating UMI's operations and completing enhancements to UMI's product lines prior to their release to Merit's sales force and customers. The Company expects that the UMI division can be profitable by the end of 1997. The addition of up to 14 new technical and engineering employees to support product development will accelerate introduction of new products but will also impact near-term results.



## RESULTS OF OPERATIONS

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

	Year ended December 31,		
	1996	1995	1994
Sales	100.0%	100.0%	100.0%
Gross profit	41.9	41.3	43.0
Selling, general and administrative expenses	28.4	30.1	30.7
Research and development expenses	5.0	5.5	6.2
Income from operations	8.5	5.8	6.1
Income before income tax expense	7.2	4.7	6.0
Net income	4.3	2.9	3.8

Sales increased by \$7,868,482, or 18.5%, in 1996 compared to an increase of \$9,263,039, or 27.8%, in 1995 and an increase of \$7,893,065, or 31.0%, in 1994. Company sales growth from 1994 through 1996 was favorably affected by introductions of new and existing products sold separately and packaged in custom kits, increased penetration of the market for inflation devices and introduction and sale of new products. International sales in 1996 were approximately \$11,900,000 compared to \$8,319,000 in 1995 and \$5,450,000 in 1994. These increases were primarily attributable to the ongoing transition to a direct sales force in Europe (direct sales in France, Germany and the U.K. were \$5,259,870 in 1996 compared to \$1,882,648 in sales in 1995) as well as greater acceptance of the Company's products in other international markets, such as Japan.

Gross profit as a percentage of sales was 41.9%, 41.3% and 43.0% in 1996, 1995 and 1994, respectively. The increase in gross profit from 1995 to 1996 was attributable to increased production volumes and efficiencies which continue to be achieved in the Company's new facility. Gross profit was also favorably affected by higher margins on international sales made through the Company's direct sales force, although these margins have been declining in recent months as competitors enter European markets.

The decline in gross profit in 1995 from 1994 was attributable to increased custom kit sales where margins are lower than on proprietary products sold separately. Pricing pressure has also been experienced over the three year period to varying degrees in each of the Company's markets, particularly with custom kits, as the Company has entered this well-established market. Selling, general and administrative expenses increased \$1,502,244, or 11.7%, in 1996 compared to 1995 and \$2,576,590, or 25.2% in 1995 compared to 1994. These additional expenditures were related principally to the costs of training and supporting the Company's growing sales force in international and domestic markets. Although total selling, general and administrative expenses have increased during the periods, these expenses, as a percentage of sales, declined to 28.4% in 1996 compared to 30.1% in 1995 and 30.7% in 1994. These reductions have been accomplished (despite substantial expenditures related to starting up the Company's European operations) in part through a Company-wide focus on achieving greater individual productivity. Increased sales have also permitted the spread of fixed costs over a greater number of units (economies of scale).

The income tax provision for 1996 was \$1,277,431, an effective rate of 35.2%, compared to \$700,418, or 35.0% in 1995 and \$775,453, or 38.9%, in 1994. The Company's effective tax rate in 1994 was higher principally because of expenses and losses of approximately \$290,000 associated with the acquisition of Sentir, Inc. and the start-up of international operations for which related tax benefits were not recognized. The tax rate for 1996 and 1995 decreased compared to 1994 because of tax benefits recorded for prior year losses of Sentir, Inc. The benefits of these net operating losses have all been recognized and therefore the Company's effective tax rate is expected to rise until there are Ireland manufacturing profits, which are taxed at 10% rate, later in 1997.

## LIQUIDITY AND CAPITAL RESOURCES

At December 31, 1996, the Company's working capital was \$12,761,211, which represented a current ratio of 2.1 to 1. During 1995, the Company increased its secured bank line of credit to \$8.5 million and obtained \$2.2 million in term debt due in October 2000. The Company had \$4,533,873 outstanding under the bank line of credit at December 31, 1996. At March 27, 1997 the outstanding balance was \$3,873,156. The Company has financed leasehold improvements and equipment acquisitions through secured notes payable and capital lease arrangements with an outstanding balance of \$6,210,702 at December 31, 1996. For the year ended December 31, 1996, the Company generated cash from operations in the amount of \$3,418,361, which represented an increase of \$5,229,567 over 1995. In addition to the improved profitability of the Company, better management of accounts receivable and inventories were the primary factors contributing to increased cash flows from operations.

Historically, the Company has incurred significant expenses in connection with product development and introduction of new products. This has particularly been true in 1995 and 1996 with regard to the development of new products and the start-up of operations in Europe. Substantial capital has also been required to finance growth in inventories and receivables. The Company's principal source of funding for these and other expenses has been the sale of equity, cash generated from operations, secured loans on equipment and bank lines of credit. The Company believes that its present sources of liquidity and capital are adequate for its current operations.

Merit Medical Systems, Inc. and Subsidiaries  
Consolidated Balance Sheets  
December 31, 1996 and 1995

ASSETS	1996	1995
CURRENT ASSETS:		
Cash (Note 1)	\$ 1,262,950	\$ 270,841
Trade receivables - net of allowance for uncollectible accounts: 1996 - \$75,324; 1995 - \$65,237 (Note 5)	7,379,079	6,727,960
Employee and related party receivables (Note 9)	327,425	363,266
Irish Development Agency grant receivable (Note 6)	416,891	544,725
Inventories (Notes 1, 3, and 5)	13,852,360	12,156,795
Prepaid expenses and other assets	518,823	403,414
Deferred income tax assets (Note 4)	729,060	655,609
	-----	-----
Total current assets	24,486,588	21,122,610
PROPERTY AND EQUIPMENT (Notes 1, 5, and 6):		
Land	1,107,351	595,959
Building	1,043,804	782,195
Automobiles	144,535	174,651
Manufacturing equipment	8,656,145	7,959,952
Furniture and fixtures	3,816,402	3,005,093
Leasehold improvements	2,673,897	3,087,602
Construction-in-progress	5,193,993	1,465,945
	-----	-----
Total	22,636,127	17,071,397
Less accumulated depreciation and amortization	(7,605,728)	(5,479,589)
	-----	-----
Property and equipment - net	15,030,399	11,591,808
OTHER ASSETS:		
Intangible assets - net of accumulated amortization: 1996 - \$636,059; 1995 - \$535,155 (Notes 1 and 5)	1,839,532	1,463,885
Prepaid royalty - net of accumulated amortization: 1996 - \$407,143; 1995 - \$321,429 (Notes 1 and 10)	192,857	278,571
Deposits	169,177	46,984
	-----	-----
Total other assets	2,201,566	1,789,440
	-----	-----
TOTAL	\$ 41,718,553	\$ 34,503,858
	=====	=====

(Continued)

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Merit REPORT MAGAZINE

LIABILITIES AND STOCKHOLDERS' EQUITY	1996	1995
CURRENT LIABILITIES:		
Line of credit (Note 5)	\$ 4,533,873	\$ 5,871,539
Current portion of long-term debt (Notes 5 and 6)	1,388,576	778,088
Trade payables	2,709,869	3,056,289
Accrued expenses	2,969,246	1,715,075
Advances from employees	107,907	52,863
Income taxes payable (Note 4)	15,906	129,785
Total current liabilities	11,725,377	11,603,639
DEFERRED INCOME TAX LIABILITIES (Note 4)	852,578	616,652
LONG-TERM DEBT (Notes 5 and 6)	4,822,126	1,778,953
DEFERRED CREDITS (Note 6)	1,467,660	1,066,513
Total liabilities	18,867,741	15,065,757
MINORITY INTEREST IN SUBSIDIARY (Notes 1 and 2)	363,689	173,576
COMMITMENTS AND CONTINGENCIES (Notes 6, 10, 11 and 12)		
STOCKHOLDERS' EQUITY (Notes 1, 7, and 11):		
Common stock - no par value; authorized: 10,000,000 shares; issued: 1996 - 6,942,290 shares; 1995 - 6,786,239 shares	14,184,975	13,088,265
Foreign currency translation adjustment	(14,089)	22,631
Retained earnings	8,316,237	6,153,629
Total stockholders' equity	22,487,123	19,264,525
TOTAL	\$ 41,718,553	\$ 34,503,858

See notes to consolidated financial statements.

(Concluded)

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Merit Medical Systems, Inc. and Subsidiaries  
Consolidated Statements of Operations  
For the Years Ended December 31, 1996, 1995 and 1994

	1996	1995	1994
SALES (Notes 8 and 9)	\$ 50,455,766	\$ 42,587,284	\$ 33,324,245
COST OF SALES (Notes 9 and 10)	29,319,617	24,987,998	18,999,015
GROSS PROFIT	21,136,149	17,599,286	14,325,230
EXPENSES:			
Selling, general, and administrative (Note 11)	14,311,049	12,808,805	10,232,215
Research and development	2,533,171	2,330,324	2,069,882
Total	16,844,220	15,139,129	12,302,097

INCOME FROM OPERATIONS	4,291,929	2,460,157	2,023,133
OTHER INCOME (EXPENSE):			
Interest income (Note 9)	23,377	15,185	86,947
Interest expense	(707,878)	(428,038)	(113,347)
Miscellaneous income (expense)	22,724	(46,609)	(3,468)
Other expense - net	(661,777)	(459,462)	(29,868)
INCOME BEFORE INCOME TAX EXPENSE	3,630,152	2,000,695	1,993,265
INCOME TAX EXPENSE (Note 4)	(1,277,431)	(700,418)	(775,453)
MINORITY INTEREST IN (INCOME) LOSS OF SUBSIDIARY (Notes 1 and 2)	(190,113)	(79,040)	33,035
NET INCOME	\$ 2,162,608	\$ 1,221,237	\$ 1,250,847
NET INCOME PER COMMON AND COMMON EQUIVALENT SHARE (Note 1)	\$ .31	\$ .18	\$ .19
WEIGHTED AVERAGE NUMBER OF COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING (Note 1)	7,051,911	6,851,164	6,678,041

See notes to consolidated financial statements.

Merit Medical Systems, Inc. and Subsidiaries  
Consolidated Statements of Stockholders' Equity  
For the Years Ended December 31, 1996, 1995 and 1994

	Common Stock		Treasury Stock		Foreign Currency Translation Adjustment	Retained Earnings
	Shares	Amount	Shares	Amount		
BALANCE, JANUARY 1, 1994	6,437,086	\$12,023,607	NONE	NONE	NONE	\$ 3,681,545
Net income						1,250,847
Issuance of common stock for cash (Note 11)	13,657	58,063				
Options and warrants exercised for cash (Note 7)	167,000	380,290				
Options and warrants exercised and treasury stock acquired through stock option settlement agreements including the recording of payroll tax liabilities in the amount of \$328,906 (Note 7)	145,301	135,873	85,173	(464,779)		
Treasury stock acquired for cash			14,406	(21,967)		
Treasury stock acquired for cancellation of note receivable			29,102	(149,148)		
Treasury stock sold for cash (Note 11)			(56,466)	293,142		
Retirement of treasury stock	(72,215)	(342,752)	(72,215)	342,752		
Foreign currency translation adjustment (Note 1)					\$ (1,662)	
Tax benefit attributable to appreciation of common stock options exercised		351,218				
BALANCE, DECEMBER 31, 1994	6,690,829	12,606,299	NONE	NONE	(1,662)	4,932,392
Net income						1,221,237
Issuance of common stock for cash (Note 11)	15,949	99,106				
Options and warrants exercised for cash (Note 7)	79,461	370,339				
Options to purchase 1,939 shares surrendered in exchange for the recording of payroll tax liabilities (Note 7)		(9,453)				
Foreign currency translation adjustment (Note 1)					24,293	
Tax benefit attributable to appreciation of common stock options exercised		21,974				
BALANCE, DECEMBER 31, 1995	6,786,239	13,088,265	NONE	NONE	22,631	6,153,629
Net income						2,162,608
Issuance of common stock for cash (Note 11)	39,996	309,370				
Options and warrants exercised for cash (Note 7)	104,117	643,028				
Issuance of common stock under Employee Stock Purchase Plan (Note 7)	11,938	78,633				
Foreign currency translation adjustment (Note 1)					(36,720)	
Tax benefit attributable to appreciation of common stock options exercised		65,679				
BALANCE, DECEMBER 31, 1996	6,942,290	\$14,184,975	NONE	NONE	\$(14,089)	\$ 8,316,237

See notes to consolidated financial statements.

Merit Medical Systems, Inc. and Subsidiaries  
 Consolidated Statements of Cash Flows  
 For the Years Ended December 31, 1996, 1995 and 1994

	1996	1995	1994
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 2,162,608	\$ 1,221,237	\$ 1,250,847
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	2,497,850	1,718,901	1,561,982
Bad debt expense	17,708	33,509	2,728
Losses on sales and abandonment of property and equipment	6,867	61,138	11,778
Amortization of deferred credits (Note 6)	(73,619)	(55,761)	
Deferred income taxes	162,475	(200,768)	33,818
Tax benefit attributable to appreciation of common stock options exercised	65,679	21,974	351,218
Minority interest in income (loss) of subsidiary	190,113	79,040	(33,035)
Changes in operating assets and liabilities net of effects from purchase of Sentir, Inc. (Notes 1 and 2):			
Trade receivables	(668,827)	(1,654,077)	(1,448,376)
Employee and related party receivables	35,841	(151,802)	(22,212)
Irish Development Agency grant receivable	142,637	(194,440)	(77,612)
Income tax refund receivable		133,048	(133,048)
Inventories	(1,695,565)	(3,786,342)	(2,397,710)
Prepaid expenses and other assets	(115,409)	(219,725)	(10,630)
Deposits and other	(158,913)	85,861	(51,617)
Trade payables	(346,420)	547,550	1,323,933
Accrued expenses	1,254,171	413,470	103,717
Advances from employees	55,044	6,196	14,670
Income taxes payable	(113,879)	129,785	(118,416)
Total adjustments	1,255,753	(3,032,443)	(888,812)
Net cash provided by (used in) operating activities	3,418,361	(1,811,206)	362,035
CASH FLOWS FROM INVESTING ACTIVITIES:			
Collections on construction advances receivable	2,184,630		
Capital expenditures for:			
Property and equipment	(2,736,477)	(2,497,060)	(3,516,100)
Intangible assets	(486,414)	(410,982)	(363,446)
Proceeds from the sale of property and equipment	41,156		6,765
Purchase of Sentir, Inc. - net of cash acquired			(140,741)
Net cash used in investing activities	(3,181,735)	(723,412)	(4,013,522)

(Continued)

	1996	1995	1994
CASH FLOWS FROM FINANCING ACTIVITIES:			
Borrowing under line of credit	\$ 22,551,386	\$ 25,390,713	\$ 25,162,956
Proceeds from:			
Issuance of common and treasury stock	1,031,031	469,445	731,495
Long-term debt	2,200,000		
Principal payments on:			
Line of credit	(23,889,052)	(22,982,819)	(22,885,708)
Long-term debt	(1,068,415)	(631,887)	(338,918)
Deferred credits	(69,467)	(54,227)	
Purchase of treasury stock			(21,967)
Proceeds included in deferred credits		448,398	289,294
Proceeds from sale of subsidiary stock to minority shareholders		10,000	
Net cash provided by financing activities	755,483	2,649,623	2,937,152
NET INCREASE (DECREASE) IN CASH	992,109	115,005	(714,335)
CASH AT BEGINNING OF YEAR	270,841	155,836	870,171
CASH AT END OF YEAR	\$ 1,262,950	\$ 270,841	\$ 155,836
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION - Cash paid during the year for interest (including capitalized interest of \$177,133, \$152,469, and \$402,059 during 1996, 1995, and 1994, respectively)			
	\$ 761,430	\$ 361,062	\$ 516,001
Income taxes	\$ 1,163,156	\$ 638,353	\$ 641,881

SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:

- o During 1996, 1995, and 1994, the Company entered into capital lease obligations and notes payable for \$2,522,076, \$1,997,992, and \$415,835, respectively, for manufacturing equipment.
- o During 1996, 1995, and 1994, the Company increased common stock by \$65,679, \$21,974, and \$351,218, respectively, for the tax benefit attributable to appreciation of common stock options exercised.
- o During 1995, options to purchase 1,939 shares of the Company's common stock were surrendered in exchange for the Company's recording of payroll tax liabilities in the amount of \$9,453.
- o During 1994, the Company acquired 29,102 shares of treasury stock in exchange for the cancellation of a note receivable in the amount of \$149,148.
- o During 1994, the Company settled stock option agreements whereby options to purchase 145,301 shares of the Company's common stock were exercised in exchange for 85,173 shares of previously issued common shares of the Company. In addition, options to purchase an additional 59,449 shares of the Company's common stock were surrendered in exchange for the Company's recording of payroll tax liabilities in the amount of \$328,906.
- o During 1994, the Company acquired 73% of the outstanding common stock of Sentir, Inc. (see Note 2). In connection with this acquisition, the Company recorded the following as of the acquisition date:

Assets acquired	\$	772,028
Liabilities assumed		(476,453)
Minority interest		(117,571)
		-----
Total purchase price	\$	178,004
		=====

See notes to consolidated financial statements.

(Concluded)

Merit Medical Systems, Inc. and Subsidiaries  
 Notes to Consolidated Financial Statements  
 For the Years Ended December 31, 1996, 1995 and 1994

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - Merit Medical Systems, Inc. (Merit) and its wholly owned subsidiaries, Merit Holdings, Inc., and Merit Medical International, Inc., and Merit's majority-owned subsidiary, Sentir, Inc., (collectively, the Company) develop, manufacture, and market disposable medical products primarily for use in the diagnosis and treatment of cardiovascular disease. The Company manufactures its products in plants located in the United States and beginning in 1997 in Ireland. The Company has export sales to dealers (see Note 8) and has direct sales forces in the United States, Canada and Western Europe.

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

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

Principles of Consolidation - The consolidated financial statements include

those of Merit, Merit Medical International, Inc., Merit Holdings, Inc., and Merit's majority-owned subsidiary, Sentir, Inc. (Sentir) (see Note 2). All material intercompany balances and transactions have been eliminated in consolidation.

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

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

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

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

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

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

Net Income Per Common and Common Equivalent Share - Net income per common and common equivalent share is based on the weighted average number of shares outstanding during each year and for common stock equivalents, which assumes the exercise of stock options and warrants.

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

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

## 2. ACQUISITION OF SENTIR

On July 1, 1994, the Company acquired 2,702,900 shares, or approximately 73%, of the issued and outstanding common stock of Sentir, a Santa Clara, California-based developer and manufacturer of sensors and transducers for medical and other applications, from Fred P. Lampropoulos, the founder and President of Sentir, and the Company's President and Chief Executive Officer. The shares were acquired from Mr. Lampropoulos for an aggregate of \$178,004 of which \$40,000 represented the exercise price of an option granted to the Company by Mr. Lampropoulos for the purchase of 2,176,000 shares of Sentir in 1992 and the balance was the amount negotiated by an independent committee of the Board of Directors for the purchase of the balance of the 526,900 shares owned by Mr. Lampropoulos.

The Company's acquisition of Sentir was accounted for as a purchase and, accordingly, the results of operations of Sentir are included in the Company's

consolidated financial statements from the date of acquisition. The total purchase price was allocated to the assets and liabilities of Sentir based on their fair values with no resulting goodwill.

The pro forma consolidated results of operations of the Company for the year ended December 31, 1994 (assuming the acquisition of Sentir had occurred as of January 1, 1994) are as follows:

Sales	\$ 33,347,749
Net income	1,145,183
Net income per common and common equivalent share	0.17

### 3. INVENTORIES

Inventories consist of the following at December 31, 1996 and 1995:

	1996		1995	
Finished goods	\$ 6,284,200		\$ 5,727,801	
Work-in-process	3,806,150		3,337,315	
Raw materials	4,025,497		3,333,644	
Less reserve for obsolete inventory	(263,487)		(241,965)	
	-----		-----	
Total	\$ 13,852,360		\$ 12,156,795	
	=====		=====	

### 4. INCOME TAXES

Deferred income tax assets and liabilities at December 31, 1996 and 1995 consist of the following temporary differences and carryforward items:

	Current		Long-Term	
	1996	1995	1996	1995
Deferred income tax assets:				
Allowance for uncollectible accounts receivable	\$ 29,404	\$ 27,044		
Accrued compensation expense	82,447	58,060		
General business credits	21,757	170,690		
Inventory capitalization for tax purposes	116,608	165,127		
Inventory obsolescence reserve	105,497	84,688		
Other	62,122			
Net operating losses of subsidiaries	311,225	150,000	\$ 481,878	
	-----		-----	
Total	729,060	655,609		481,878
Less deferred income tax asset valuation allowance				(353,710)
	-----		-----	
Total net deferred income tax assets	729,060	655,609		128,168
	-----		-----	
Deferred income tax liabilities - differences between tax basis and financial reporting basis of property and equipment			\$ (852,578)	(744,820)
	-----		-----	
Net	\$ 729,060	\$ 655,609	\$ (852,578)	\$ (616,652)
	=====		=====	

Income tax expense for the years ended December 31, 1996, 1995, and 1994 differs from amounts computed by applying the statutory Federal rate to pretax income as follows:

	1996	1995	1994
Computed Federal income tax expense at statutory rate of 35%	\$ 1,270,553	\$ 700,243	\$ 697,643
State income taxes	231,126	160,562	149,333
Creation of tax credits	(61,435)	(52,104)	(103,970)
Tax benefit of foreign sales corporation	(85,614)	(46,628)	(45,868)



Losses of subsidiaries recorded at foreign rates	289,594	105,000	101,775
Change in deferred income tax asset valuation allowance	(353,710)	(150,000)	
Other - including the effect of graduated rates	(13,083)	(16,655)	(23,460)
Total income tax expense	\$ 1,277,431	\$ 700,418	\$ 775,453
Consisting of:			
Current	\$ 1,114,956	\$ 901,186	\$ 741,635
Deferred	162,475	(200,768)	33,818
Total	\$ 1,277,431	\$ 700,418	\$ 775,453

#### 5. LINE OF CREDIT AND LONG-TERM DEBT

Line of Credit - As of December 31, 1996 and 1995, the Company had a line of credit for \$8,500,000. The credit line is collateralized by trade receivables, inventories, property and equipment, and intangible assets and accrues interest at the bank's prime rate plus .25%. Under the terms of the line, among other things, the Company is required to maintain positive earnings for each fiscal quarter during the term of the loan, maintain a ratio of total liabilities to tangible net worth not to exceed 1.0 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 \$7,000,000, and is restricted from paying dividends to shareholders. As of December 31, 1996 and 1995, the Company owed \$4,533,873 and \$5,871,539, respectively, under this line of credit.

Long-term Debt - Long-term debt consists of the following at December 31, 1996 and 1995:

	1996	1995
Notes payable to financial institutions; payable in monthly installments through 2001, including interest at rates ranging from 6.50% to 11.96%; collateralized by equipment	\$ 4,847,317	\$ 2,240,322
Capital lease obligations (see Note 6)	1,363,385	316,719
Total	6,210,702	2,557,041
Less current portion	1,388,576	778,088
Long-term portion	\$ 4,822,126	\$ 1,778,953

Scheduled maturities of long-term debt at December 31, 1996, are as follows:

Year ending	December 31:
1997	\$ 1,388,576
1998	1,415,981
1999	1,179,565
2000	1,675,235
2001	501,638
Thereafter	49,707
Total	\$ 6,210,702

#### 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 Company has subleased these facilities during 1996 and 1995. Total rental income from these subleases for the years ended December 31, 1996 and 1995 was approximately \$153,000 and \$69,000, respectively. Total rental expense on these operating leases and on the Company's new manufacturing and office building (see below) for the years ended December 31, 1996, 1995, and 1994 approximated \$2,448,000, \$2,058,000, and \$864,000, respectively.

The Company leases manufacturing and office equipment under long-term capital lease agreements. Capital leases are collateralized by equipment approximating \$1,635,000 and \$595,000 with accumulated amortization of approximately \$249,000 and \$285,000 as of December 31, 1996 and 1995, respectively.

In June 1993, the Company entered into a 25 year lease agreement with a developer (an unrelated party) for a new manufacturing and office building. Under the agreement, the Company was granted an option to purchase the building at fair market value after 10 years and, if not exercised, after 25 years. Upon the building's completion in February 1995, monthly rental payments were approximately \$108,000. In connection with this lease agreement, the Company in 1993 sold to the developer 10 acres of land on which the building was constructed. The \$166,136 gain on the sale of the land has been recorded as a deferred credit and is being amortized as a reduction of rent expense over ten years. During 1996 and 1995, \$16,614 and \$15,230, respectively, of this deferred credit was amortized as a reduction of rent expense. In connection with the construction of the building, the Company capitalized interest costs of approximately \$402,000 during the year ended December 31, 1994. Such capitalized costs are included in leasehold improvements as of December 31, 1996 and 1995. In connection with the lease agreement, the Company issued to the developer warrants to purchase 155,461 shares of the Company's common stock at \$4.95 subject to carrying cost increases of 3% per year. The warrants expire in ten years.

The future minimum lease payments, together with the present value of the net minimum lease payments as of December 31, 1996, are as follows:

Year ending December 31:	Operating Leases	Capital Leases
1997	\$ 2,602,774	\$ 411,669
1998	2,409,124	357,690
1999	2,097,860	330,164
2000	1,886,946	315,632
2001	1,413,645	221,738
Thereafter	23,459,328	
	-----	-----
Total minimum lease payments	\$ 33,869,677	1,636,893
Less amount representing interest and executory costs		273,508
	=====	-----
Present value of net minimum lease payments (see Note 5)		\$ 1,363,385
		=====

Irish Government Development Agency Grants - Through December 31, 1996, the Company has entered into several grant agreements with the Irish Government Development Agency of which \$416,891 and \$544,725 remained in receivables at December 31, 1996 and 1995, respectively. The grant agreements reimburse the Company for a portion of the cost of property and equipment purchased in Ireland, specific research and development projects in Ireland and costs of hiring and training employees located in Ireland. The Company has recorded the grants related to research and development projects and costs of hiring and training employees as a reduction of operating expenses in 1996, 1995, and 1994 in the amounts of \$230,654, \$194,440, and \$36,227, respectively. Grants related to the acquisition of property and equipment purchased in Ireland are recorded as deferred credits and are amortized to income over lives corresponding to the depreciable lives of such property. During 1996 and 1995, \$57,005 and \$40,531, respectively, of the deferred credit was amortized as a reduction of operating expenses.

Other Deferred Credits - The Company has also received non-interest bearing advances from a utility company under a program whereby such advances are made available for the cost of energy reduction improvements made to the Company's facilities. Through December 31, 1996, the Company had received total advances under this program of \$521,419. As of December 31, 1996 and 1995, the balance owing and included in deferred credits totaled \$397,724 and \$467,191, respectively. The advances are payable over eleven years in monthly

installments.

Litigation - Bennett vs. Merit Medical Systems, Inc., et. - On February 4, 1994, an action was filed in the Third District Court of Salt Lake County, State of Utah by an individual claiming to be a shareholder of the Company and naming the Company, Fred P. Lampropoulos, President of the Company, and Sentir, a company founded by Mr. Lampropoulos, as defendants. The complaint asserted claims on behalf of the Company (derivative claims) against Mr. Lampropoulos and

Sentir, alleging breach of fiduciary duty and the improper taking of a corporate opportunity in connection with the formation of Sentir. The relief sought in connection with the derivative claims included disgorgement, costs, and attorneys' fees. The Company appointed an independent Special Litigation Committee of the Board to determine the Company's course of action on the derivative claims which engaged counsel separate from the Company's usual counsel for purposes of the derivative claims. On November 7, 1995, pursuant to a Motion filed on behalf of the Company's Special Litigation Committee, the Court made a minute entry granting the Motion to Dismiss the derivative claims, without prejudice. On November 4, 1996, the Special Litigation Committee delivered its report essentially concluding that the derivative claims were not well founded. Nevertheless, on November 22, 1996, the plaintiff refiled the derivative claims in the Third District court of Salt Lake County, State of Utah and on January 22, 1997, a motion to dismiss was filed on behalf of the Company, seeking to terminate the litigation and asserting that the report of the Special Litigation Committee is entitled to deference under the law. Plaintiff has not yet responded.

7. EMPLOYEE STOCK PURCHASE PLAN AND STOCK OPTIONS AND WARRANTS

The Company offers to its employees an Employee Stock Purchase Plan which allows the employee on a quarterly basis to purchase shares of the Company's common stock at the lesser of 85% of the market value on the offering commencement date or offering termination date. The total number of shares available to employees to purchase under this plan is 250,000 of which 11,938 have been purchased as of December 31, 1996.

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

Changes in stock options and warrants for the years ended December 31, 1996, 1995, and 1994 are as follows:

	Options		Warrants	
	Shares	Weighted Average or Range of Price	Shares	Weighted Average or Range of Price
1996:				
Granted	340,000	\$8.19	517	\$6.83
Exercised	84,850	6.08	19,267	6.65
Forfeited/expired	43,750	6.02		
Outstanding at December 31	804,700	6.96	215,461	5.85
Exercisable	364,600	6.64	215,461	5.85
Weighted average fair value of options and warrants granted during year		\$4.50		
Weighted average fair value of shares issued under Employee Stock Purchase Plan		1.16		
1995:				

Granted	182,000	\$5.63 - \$9.63	155,461	\$ 4.95
Exercised	43,511	3.29 - 7.00	35,950	3.20-4.67
Options surrendered to the Company in exchange for the recording of payroll tax liabilities	1,939	4.87		
Forfeited/expired	56,250	4.87 - 9.63	10,900	3.20
Outstanding at December 31	593,300	4.87 - 9.63	234,211	4.95-7.65
Exercisable	279,150	4.87 - 9.63	234,211	4.95-7.65

	Options		Warrants	
	Shares	Weighted Average or Range of Price	Shares	Weighted Average or Range of Price
1994:				
Granted	112,200	\$ 4.88 - \$ 5.50		
Exercised	297,301	2.27 - 3.29	15,000	\$ 1.33
Options surrendered to the Company in exchange for the recording of payroll tax liabilities	59,449	2.27 - 3.29		
Forfeited/expired	19,450	5.50 - 6.25	9,999	1.33
Outstanding at December 31	513,000	3.29 - 8.50	125,600	3.20-7.65
Exercisable	251,870	3.29 - 8.50	125,600	3.20-7.65

The following table summarizes information about stock options and warrants outstanding at December 31, 1996:

Options and Warrants Outstanding			Options and Warrants Exercisable		
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
Options:					
\$4.875 - \$7.25	546,700	2.21	\$ 6.12	307,400	\$ 5.91
7.50 - 10.625	258,000	4.60	8.71	57,200	10.56
Warrants:					
\$5.10	155,461	8.00	\$ 5.10	155,461	\$ 5.10
7.65	60,000	0.42	7.65	60,000	7.65

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

	1996	1995
Net income:		
As reported	\$ 2,162,608	\$ 1,221,237
Pro forma	1,753,765	1,146,934
Net income per common and common equivalent share:		

As reported	\$0.31	\$0.18
Pro forma	0.25	0.17

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

8. EXPORT SALES

During the years ended December 31, 1996, 1995, and 1994, the Company had sales of approximately \$11,900,000, \$8,319,000, and \$5,450,000 or approximately 24%, 20%, and 16%, respectively, of total sales primarily in Japan, Germany, France, United Kingdom and Canada.

9. RELATED PARTY TRANSACTIONS

The following summarizes the Company's transactions with Sentir (see Note 2) for the six months ended June 30, 1994:

Sales	\$	3,193
Purchases		363,445
Interest income		16,265

Receivables from employees at December 31, 1996 and 1995 totaled \$274,548 and \$269,208, respectively, (including \$143,879 and \$67,459, respectively, from officers of the Company).

10. ROYALTY AGREEMENT

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

Pursuant to the settlement, the Company entered into a license agreement with the Licensor, whereby the Licensor granted to the Company a nonexclusive right and license to manufacture and sell products which are subject to the patents issued to the Licensor. For the rights and license granted under the agreement, the Company paid the Licensor a nonrefundable prepaid royalty in the amount of \$600,000. The royalty was paid upon execution of the agreement and represents a prepaid royalty covering the first seven years of the agreement. In addition to the prepaid royalty, the Company agreed to pay the Licensor a continuing royalty beginning January 1, 1992 of 5.75% of sales (which will not exceed \$450,000 for any calendar year) made in the United States, of products covered by the license agreement. Royalties of \$450,000 were paid or accrued in each of the years ended December 31, 1996, 1995, and 1994.

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

11. EMPLOYEE BENEFIT PLAN

The Company has a contributory 401(k) savings and profit sharing plan (the Plan) covering all fulltime employees who are at least 21 years of age and have a minimum of one year of service to the Company. The Company may contribute at its discretion matching contributions up to 2.25% of the employees' compensation. Additional employer contributions are determined at the discretion of the Board of Directors. The Company did not contribute to the Plan for the year ended December 31, 1995. Contributions made by the Company to the Plan for the years ended December 31, 1996 and 1994 totaled approximately \$227,000 and \$108,000, respectively.

The Plan purchased shares of the Company's common stock at market value during each of the three years ended December 31, 1996 as follows:

	Treasury Shares		Unissued Shares	
	Shares	Market Value	Shares	Market Value
Years ended December 31:				
1996			39,996	\$ 309,370
1995			15,949	99,106
1994	56,466	\$ 293,142	13,657	58,063

## 12. SUBSEQUENT EVENT

On January 14, 1997, the Company announced that the shareholders of Universal Medical Instrument Corp. (UMI), had approved the sale of substantially all operating assets in exchange for 152,420 shares of the Company's common stock which was valued at approximately \$1.5 million. UMI is a privately held company located in Saratoga County, New York.

The Company's acquisition of UMI's assets will be accounted for using the purchase method of accounting. The total purchase price of approximately \$1.5 million will be allocated to the acquired assets based on their fair values with the excess purchase price over the fair value of assets acquired of approximately \$625,000 being allocated to goodwill.

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Merit Medical Systems, Inc. and subsidiaries as of December 31, 1996 and 1995, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Merit Medical Systems, Inc. and subsidiaries as of December 31, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1996 in conformity with generally accepted accounting principles.

/S/Deloitte & Touche LLP  
March 7, 1997  
Salt Lake City, Utah

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement Nos. 33-96738 on Form S-3 and 33-48227, 33-46964, and 333-10509 on Forms S-8 of Merit Medical Systems, Inc. of our report dated March 7, 1997, appearing in and incorporated by reference in this Annual Report on Form 10-K of Merit Medical Systems, Inc. for the year ended December 31, 1996.

/S/ Deloitte & Touche LLP

Salt Lake City, Utah  
March 28, 1997

WARNING: THE EDGAR SYSTEM ENCOUNTERED ERROR(S) WHILE PROCESSING THIS SCHEDULE.

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM MERIT MEDICAL SYSTEMS, INC.'S CONSOLIDATED BALANCE SHEET AND INCOME STATEMENT FOR THE TWELVE-MONTH PERIOD ENDING DECEMBER 31, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.  
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