Table of Contents

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**Washington, D.C. 20549**
# FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**FOR THE QUARTERLY PERIOD ENDED June 30, 2019**

**OR**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**FOR THE TRANSITION PERIOD FROM TO .**

**Commission File Number 0-18592**

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

| **Utah** | **87-0447695** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (IRS Employer Identification No.) |

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

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

| **Title of each class** | **Trading Symbol** | **Name of exchange on which registered** |
|---|---|---|
| Common Stock, no par | MMSI | NASDAQ Global Select Market |

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 filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

| | | | |
|---|---|---|---|
| Large accelerated filer | ☒ | Accelerated filer | ☐ |
| Non-accelerated filer | ☐ | Smaller reporting company | ☐ |
| | | Emerging growth company | ☐ |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

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

| **Common Stock** | 55,174,922 |
|---|---|
| Title or class | Number of Shares Outstanding at August 7, 2019 |

**TABLE OF CONTENTS**

## PART I - FINANCIAL INFORMATION

### ITEM 1. FINANCIAL STATEMENTS

**MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES**
**CONSOLIDATED BALANCE SHEETS**
**JUNE 30, 2019 AND DECEMBER 31, 2018**
**(In thousands)**

| | June 30, 2019 | December 31, 2018 |
|---|---|---|
| **ASSETS** | (unaudited) | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 35,182 | $ 67,359 |
| Trade receivables — net of allowance for uncollectible accounts — 2019 — $2,656 and 2018 — $2,355 | 156,444 | 137,174 |
| Other receivables | 11,520 | 11,879 |
| Inventories | 202,994 | 197,536 |
| Prepaid expenses and current other assets | 12,305 | 11,326 |
| Prepaid income taxes | 3,625 | 3,627 |
| Income tax refund receivables | 4,876 | 933 |
| Total current assets | 426,946 | 429,834 |
| PROPERTY AND EQUIPMENT: | | |
| Land and land improvements | 27,651 | 26,801 |
| Buildings | 153,502 | 151,251 |
| Manufacturing equipment | 230,315 | 221,029 |
| Furniture and fixtures | 57,565 | 54,765 |
| Leasehold improvements | 34,518 | 33,678 |
| Construction-in-progress | 69,370 | 53,491 |
| Total property and equipment | 572,921 | 541,015 |
| Less accumulated depreciation | (222,402) | (209,563) |
| Property and equipment — net | 350,519 | 331,452 |
| OTHER ASSETS: | | |
| Intangible assets: | | |
| Developed technology — net of accumulated amortization — 2019 — $125,447 and 2018 — $102,357 | 391,651 | 383,147 |
| Other — net of accumulated amortization — 2019 — $56,289 and 2018 — $49,136 | 74,419 | 79,566 |
| Goodwill | 352,133 | 335,433 |
| Deferred income tax assets | 3,038 | 3,001 |
| Right-of-use operating lease assets | 79,309 | — |
| Other assets | 58,255 | 57,579 |
| Total other assets | 958,805 | 858,726 |
| TOTAL | $ 1,736,270 | $ 1,620,012 |

See condensed notes to consolidated financial statements.

(continued)

**MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES**
**CONSOLIDATED BALANCE SHEETS**
**JUNE 30, 2019 AND DECEMBER 31, 2018**
**(In thousands)**

| | June 30, 2019 | December 31, 2018 |
|---|---|---|
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | (unaudited) | |
| CURRENT LIABILITIES: | | |
| Trade payables | $ 52,601 | $ 54,024 |
| Accrued expenses | 97,176 | 96,173 |
| Current portion of long-term debt | 15,000 | 22,000 |
| Short-term operating lease liabilities | 11,732 | — |
| Income taxes payable | 42 | 3,146 |
| Total current liabilities | 176,551 | 175,343 |
| LONG-TERM DEBT | 385,221 | 373,152 |
| DEFERRED INCOME TAX LIABILITIES | 60,932 | 56,363 |
| LONG-TERM INCOME TAXES PAYABLE | 392 | 392 |
| LIABILITIES RELATED TO UNRECOGNIZED TAX BENEFITS | 3,013 | 3,013 |
| DEFERRED COMPENSATION PAYABLE | 12,739 | 11,219 |
| DEFERRED CREDITS | 2,192 | 2,261 |
| LONG-TERM OPERATING LEASE LIABILITIES | 71,272 | — |
| OTHER LONG-TERM OBLIGATIONS | 73,283 | 65,494 |
| Total liabilities | 785,595 | 687,237 |
| COMMITMENTS AND CONTINGENCIES (Notes 5, 10, 11, 14 and 15) | | |
| STOCKHOLDERS' EQUITY: | | |
| Preferred stock — 5,000 shares authorized as of June 30, 2019 and December 31, 2018; no shares issued | — | — |
| Common stock, no par value; shares authorized — 2019 and 2018 - 100,000; issued and outstanding as of June 30, 2019 - 55,079 and December 31, 2018 - 54,893 | 579,250 | 571,383 |
| Retained earnings | 376,572 | 363,425 |
| Accumulated other comprehensive loss | (5,147) | (2,033) |
| Total stockholders' equity | 950,675 | 932,775 |
| TOTAL | $ 1,736,270 | $ 1,620,012 |

See condensed notes to consolidated financial statements. (concluded)

**MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF INCOME**
**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018**
**(In thousands, except per share amounts - unaudited)**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| NET SALES | $ 255,532 | $ 224,810 | $ 493,881 | $ 427,844 |
| COST OF SALES | 143,568 | 124,801 | 277,281 | 239,779 |
| GROSS PROFIT | 111,964 | 100,009 | 216,600 | 188,065 |
| OPERATING EXPENSES: | | | | |
| Selling, general and administrative | 79,977 | 69,095 | 158,247 | 134,007 |
| Research and development | 16,332 | 15,316 | 32,375 | 29,638 |
| Intangible asset impairment charge | 548 | — | 548 | — |
| Contingent consideration expense | 2,406 | 178 | 3,181 | 219 |
| Acquired in-process research and development | 500 | 306 | 525 | 306 |
| Total operating expenses | 99,763 | 84,895 | 194,876 | 164,170 |
| INCOME FROM OPERATIONS | 12,201 | 15,114 | 21,724 | 23,895 |
| OTHER INCOME (EXPENSE): | | | | |
| Interest income | 342 | 342 | 698 | 487 |
| Interest expense | (3,115) | (3,338) | (5,879) | (5,736) |
| Other expense - net | (429) | (553) | (698) | (721) |
| Total other expense — net | (3,202) | (3,549) | (5,879) | (5,970) |
| INCOME BEFORE INCOME TAXES | 8,999 | 11,565 | 15,845 | 17,925 |
| INCOME TAX EXPENSE | 2,140 | 624 | 2,791 | 1,715 |
| NET INCOME | $ 6,859 | $ 10,941 | $ 13,054 | $ 16,210 |
| EARNINGS PER COMMON SHARE: | | | | |
| Basic | $ 0.12 | $ 0.22 | $ 0.24 | $ 0.32 |
| Diluted | $ 0.12 | $ 0.21 | $ 0.23 | $ 0.31 |
| AVERAGE COMMON SHARES: | | | | |
| Basic | 55,017 | 50,473 | 54,967 | 50,376 |
| Diluted | 56,555 | 52,154 | 56,523 | 52,033 |

See condensed notes to consolidated financial statements.

**MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018**
**(In thousands - unaudited)**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Net income | $ 6,859 | $ 10,941 | $ 13,054 | $ 16,210 |
| Other comprehensive income (loss): | | | | |
| Cash flow hedges | (1,154) | 881 | (3,731) | 2,873 |
| Income tax benefit (expense) | 297 | (226) | 960 | (738) |
| Foreign currency translation adjustment | 274 | (4,195) | (341) | (1,603) |
| Income tax benefit (expense) | (16) | — | (2) | — |
| Total other comprehensive income (loss) | (599) | (3,540) | (3,114) | 532 |
| Total comprehensive income | $ 6,260 | $ 7,401 | $ 9,940 | $ 16,742 |

See condensed notes to consolidated financial statements.

**MERIT MEDICAL SYSTEMS, INC.**
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**
**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018**
**(In thousands - unaudited)**

| | Total | Common Stock Shares | Common Stock Amount | Retained Earnings | Accumulated Other Comprehensive Loss |
|---|---|---|---|---|---|
| BALANCE — January 1, 2019 | $ 932,775 | 54,893 | $ 571,383 | $ 363,425 | $ (2,033) |
| Net income | 6,195 | | | 6,195 | |
| Reclassify deferred gain on sale-leaseback upon adoption of ASC 842 | 93 | | | 93 | |
| Other comprehensive loss | (2,515) | | | | (2,515) |
| Stock-based compensation expense | 1,766 | | 1,766 | | |
| Options exercised | 1,365 | 95 | 1,365 | | |
| Issuance of common stock under Employee Stock Purchase Plan | 432 | 7 | 432 | | |
| BALANCE — March 31, 2019 | 940,111 | 54,995 | 574,946 | 369,713 | (4,548) |
| Net income | 6,859 | | | 6,859 | |
| Other comprehensive loss | (599) | | | | (599) |
| Stock-based compensation expense | 2,523 | | 2,523 | | |
| Options exercised | 1,441 | 78 | 1,441 | | |
| Issuance of common stock under Employee Stock Purchase Plan | 340 | 6 | 340 | | |
| BALANCE — June 30, 2019 | $ 950,675 | 55,079 | $ 579,250 | $ 376,572 | $ (5,147) |

| | Total | Common Stock Shares | Common Stock Amount | Retained Earnings | Accumulated Other Comprehensive Income (Loss) |
|---|---|---|---|---|---|
| BALANCE — January 1, 2018 | $ 676,334 | 50,248 | $ 353,392 | $ 321,408 | $ 1,534 |
| Net income | 5,269 | | | 5,269 | |
| Other comprehensive income | 4,072 | | | | 4,072 |
| Stock-based compensation expense | 1,256 | | 1,256 | | |
| Options exercised | 1,286 | 91 | 1,286 | | |
| Issuance of common stock under Employee Stock Purchase Plan | 294 | 7 | 294 | | |
| BALANCE — March 31, 2018 | 688,511 | 50,346 | 356,228 | 326,677 | 5,606 |
| Net income | 10,941 | | | 10,941 | |
| Other comprehensive loss | (3,540) | | | | (3,540) |
| Stock-based compensation expense | 1,565 | | 1,565 | | |
| Options exercised | 5,307 | 357 | 5,307 | | |
| Issuance of common stock under Employee Stock Purchase Plan | 220 | 4 | 220 | | |
| Shares surrendered in exchange for payment of payroll tax liabilities | (2,065) | (40) | (2,065) | | |
| Shares surrendered in exchange for exercise of stock options | (1,685) | (32) | (1,685) | | |
| BALANCE — June 30, 2018 | $ 699,254 | 50,635 | $ 359,570 | $ 337,618 | $ 2,066 |

See condensed notes to consolidated financial statements.

**MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**FOR THE SIX MONTHS ENDED JUNE 30, 2019 AND 2018**
**(In thousands - unaudited)**

| | Six Months Ended June 30, | |
|---|---|---|
| | 2019 | 2018 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | $ 13,054 | $ 16,210 |
| | | |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 45,010 | 32,779 |
| Loss on sales and/or abandonment of property and equipment | 803 | 371 |
| Amortization of right-of-use operating lease assets | 5,874 | — |
| Write-off of patents and intangible assets | 594 | 86 |
| Acquired in-process research and development | 525 | 306 |
| Amortization of deferred credits | (70) | (71) |
| Amortization of long-term debt issuance costs | 402 | 402 |
| Stock-based compensation expense | 4,289 | 2,821 |
| Changes in operating assets and liabilities, net of effects from acquisitions: | | |
| Trade receivables | (21,206) | (27,947) |
| Other receivables | 427 | 966 |
| Inventories | (5,138) | (7,189) |
| Prepaid expenses and other current assets | (1,052) | (3,105) |
| Prepaid income taxes | (45) | (100) |
| Income tax refund receivables | (3,980) | (1,146) |
| Other assets | (2,845) | (751) |
| Trade payables | 1,338 | 15,767 |
| Accrued expenses | 1,925 | 7,467 |
| Income taxes payable | (2,059) | (2,076) |
| Deferred compensation payable | 1,518 | 438 |
| Operating lease liabilities | (5,882) | — |
| Other long-term obligations | 2,208 | (179) |
| | | |
| Total adjustments | 22,636 | 18,839 |
| | | |
| Net cash provided by operating activities | 35,690 | 35,049 |
| | | |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Capital expenditures for: | | |
| Property and equipment | (35,959) | (31,559) |
| Intangible assets | (1,607) | (1,755) |
| Proceeds from the sale of property and equipment | 22 | 4 |
| Issuance of note receivable | — | (10,500) |
| Cash paid in acquisitions, net of cash acquired | (37,256) | (118,654) |
| | | |
| Net cash used in investing activities | (74,800) | (162,464) |

See condensed notes to consolidated financial statements.

(continued)

**MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**FOR THE SIX MONTHS ENDED JUNE 30, 2019 AND 2018**
**(In thousands - unaudited)**

| | Six Months Ended June 30, | |
|---|---|---|
| | **2019** | **2018** |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from issuance of common stock | $ 3,374 | $ 3,251 |
| Proceeds from issuance of long-term debt | 125,746 | 320,827 |
| Payments on long-term debt | (120,746) | (185,827) |
| Contingent payments related to acquisitions | (611) | (130) |
| Net cash provided by financing activities | 7,763 | 138,121 |
| EFFECT OF EXCHANGE RATES ON CASH | (830) | 470 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (32,177) | 11,176 |
| CASH AND CASH EQUIVALENTS: | | |
| Beginning of period | 67,359 | 32,336 |
| End of period | $ 35,182 | $ 43,512 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | |
| Cash paid during the period for: | | |
| Interest (net of capitalized interest of $540 and $314, respectively) | $ 5,794 | $ 5,714 |
| Income taxes | $ 8,856 | $ 5,141 |
| SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES | | |
| Property and equipment purchases in accounts payable | $ 3,331 | $ 3,943 |
| Acquisition purchases in accrued expenses and other long-term obligations | $ 8,400 | $ — |
| Merit common stock surrendered (0 and 32 shares, respectively) in exchange for exercise of stock options | $ — | $ 1,684 |
| Right-of-use operating lease assets obtained in exchange for operating lease liabilities | $ 2,927 | $ — |

See condensed notes to consolidated financial statements. (concluded)

**MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES**
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**(Unaudited)**

**1. Basis of Presentation.** The interim consolidated financial statements of Merit Medical Systems, Inc. ("Merit," "we" or "us") for the three and six-month periods ended June 30, 2019 and 2018 are not audited. Our consolidated financial statements are prepared in accordance with the requirements for unaudited interim periods and, consequently, do not include all disclosures required to be made in conformity with accounting principles generally accepted in the United States of America. In the opinion of our management, the accompanying consolidated financial statements contain all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of our financial position as of June 30, 2019 and December 31, 2018, and our results of operations and cash flows for the three and six-month periods ended June 30, 2019 and 2018. The results of operations for the three and six-month periods ended June 30, 2019 and 2018 are not necessarily indicative of the results for a full-year period. These interim consolidated financial statements should be read in conjunction with the financial statements included in our Annual Report on Form 10-K (the "2018 Form 10-K") for the year ended December 31, 2018, which was filed with the Securities and Exchange Commission (the "SEC") on March 1, 2019.

**2. Inventories.** Inventories at June 30, 2019 and December 31, 2018, consisted of the following (in thousands):

| | June 30, 2019 | December 31, 2018 |
|---|---|---|
| Finished goods | $ 116,741 | $ 117,703 |
| Work-in-process | 23,419 | 14,380 |
| Raw materials | 62,834 | 65,453 |
| Total Inventories | $ 202,994 | $ 197,536 |

**3. Stock-Based Compensation Expense.** The stock-based compensation expense before income tax expense for the three and six months ended June 30, 2019 and 2018 consisted of the following (in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Cost of sales | $ 355 | $ 232 | $ 607 | $ 416 |
| Research and development | 281 | 147 | 473 | 271 |
| Selling, general and administrative | 1,887 | 1,186 | 3,209 | 2,134 |
| Stock-based compensation expense before taxes | $ 2,523 | $ 1,565 | $ 4,289 | $ 2,821 |

We recognize stock-based compensation expense (net of a forfeiture rate) for those awards which are expected to vest on a straight-line basis over the requisite service period. We estimate the forfeiture rate based on our historical experience and expectations about future forfeitures. As of June 30, 2019, the total remaining unrecognized compensation cost related to non-vested stock options, net of expected forfeitures, was approximately $32.4 million and was expected to be recognized over a weighted average period of 3.32 years.

During the three and six-month periods ended June 30, 2019, we granted stock-based awards representing 190,000 and approximately 1.1 million shares of our common stock, respectively. During the three and six-month periods ended June 30, 2018, we granted stock-based awards representing 200,000 and 692,002 shares of our common stock, respectively. We use the Black-Scholes methodology to value the stock-based compensation expense for options. In applying the Black-Scholes methodology to the option grants, the fair value of our stock-based awards granted was estimated using the following assumptions for the periods indicated below:

| | Six Months Ended June 30, | |
|---|---|---|
| | 2019 | 2018 |
| Risk-free interest rate | 1.90% - 2.56% | 2.63% - 2.77% |
| Expected option term | 3.0 - 5.0 years | 5.0 years |
| Expected dividend yield | — | — |
| Expected price volatility | 28.66% - 33.69% | 34.06% - 34.32% |

The average risk-free interest rate is determined using the U.S. Treasury rate in effect as of the date of grant, based on the expected term of the stock options. We determine the expected term of the stock options using the historical exercise behavior of employees. The expected price volatility was determined using a weighted average of daily historical volatility of our stock price over the corresponding expected option term and implied volatility based on recent trends of the daily historical volatility. For options with a vesting period, compensation expense is recognized on a straight-line basis over the service period, which corresponds to the vesting period.

**4. Earnings Per Common Share (EPS).** The computation of weighted average shares outstanding and the basic and diluted earnings per common share consisted of the following (in thousands, except per share amounts):

| | Three Months | | | Six Months | | |
|---|---|---|---|---|---|---|
| | Net Income | Shares | Per Share Amount | Net Income | Shares | Per Share Amount |
| Period ended June 30, 2019: | | | | | | |
| Basic EPS | $ 6,859 | 55,017 | $ 0.12 | $ 13,054 | 54,967 | $ 0.24 |
| Effect of dilutive stock options | | 1,538 | | | 1,556 | |
| Diluted EPS | $ 6,859 | 56,555 | $ 0.12 | $ 13,054 | 56,523 | $ 0.23 |
| Stock options excluded from the calculation of common stock equivalents as the impact was anti-dilutive | | 1,185 | | | 1,081 | |
| Period ended June 30, 2018: | | | | | | |
| Basic EPS | $ 10,941 | 50,473 | $ 0.22 | $ 16,210 | 50,376 | $ 0.32 |
| Effect of dilutive stock options | | 1,681 | | | 1,657 | |
| Diluted EPS | $ 10,941 | 52,154 | $ 0.21 | $ 16,210 | 52,033 | $ 0.31 |
| Stock options excluded from the calculation of common stock equivalents as the impact was anti-dilutive | | 535 | | | 359 | |

**5. Acquisitions.** On June 14, 2019, we consummated an acquisition transaction contemplated by a merger agreement to acquire Brightwater Medical, Inc. ("Brightwater"). The purchase consideration consisted of an upfront payment of $35 million plus an initial working capital adjustment of approximately $104,000 in cash, with potential earn-out payments of up to an additional $5 million for achievement of CE certification with respect to the Brightwater device and up to an additional $10 million for the achievement of sales milestones specified in the merger agreement. Brightwater developed and commercialized the ConvertX®, a single-use device used to replace a series of devices and procedures used to treat severe obstructions of the ureter. The ConvertX system is designed to be implanted once and converted from a nephroureteral catheter to a nephroureteral stent without requiring sedation or local anesthesia. Brightwater recently received FDA clearance for the ConvertX biliary stent system. We accounted for this acquisition as a business combination. The sales and results of operations related to the acquisition have been included in our cardiovascular segment since the acquisition date and were not material. Acquisition-related costs associated with the Brightwater acquisition, which were included in selling, general and administrative expenses, were not material. The purchase price was preliminarily allocated as follows (in thousands):

| | | |
|---|---|---|
| **Assets Acquired** | | |
| Trade receivables | $ | 94 |
| Inventories | | 349 |
| Property and equipment | | 409 |
| Other long-term assets | | 30 |
| Intangibles | | |
| Developed technology | | 31,680 |
| Customer lists | | 83 |
| Trademarks | | 250 |
| Goodwill | | 16,950 |
| Total assets acquired | | 49,845 |
| | | |
| **Liabilities Assumed** | | |
| Trade payables | | (58) |
| Accrued expenses | | (261) |
| Other long-term obligations | | (1,522) |
| Deferred income tax liabilities | | (4,590) |
| Total liabilities assumed | | (6,431) |
| | | |
| **Total net assets acquired** | $ | 43,414 |

We are amortizing the developed technology intangible asset acquired from Brightwater over 13 years, the related trademarks over five years and the customer list on an accelerated basis over one year. The total weighted-average amortization period for these acquired intangible assets is approximately 12.9 years.

On March 28, 2019, we paid $2 million to acquire convertible participating preferred shares of Fluidx Medical Technology, LLC ("Fluidx"), owner of certain technology proposed to be used in the development of embolic and adhesive agents for use in arterial, venous, vascular graft and cardiovascular applications inside and outside the heart and related appendages. Our investment in Fluidx has been recorded as an equity investment accounted for at cost and reflected within other assets in our accompanying consolidated balance sheet because we are not able to exercise significant influence over the operations of Fluidx. Our total current investment in Fluidx represents an ownership of approximately 12.7% of the outstanding equity interests of Fluidx.

On December 14, 2018, we consummated an acquisition transaction contemplated by an asset purchase agreement with Vascular Insights, LLC and VI Management, Inc. (combined "Vascular Insights") and acquired Vascular Insight's intellectual property rights, inventory and certain other assets, including, the ClariVein® IC system and the ClariVein OC system. The ClariVein systems are specialty infusion and occlusion catheter systems with rotating wire tips designed for the controlled 360-degree dispersion of physician-specified agents to the targeted treatment area. We accounted for this acquisition as a business combination. The purchase consideration included an upfront payment of $40 million, and we are obligated to pay up to an additional $20 million based on achieving certain revenue milestones specified in the asset purchase agreement. The sales and results of operations related to this acquisition have been included in our cardiovascular segment. During the three and six-month periods ended June 30, 2019, net sales of products acquired from Vascular Insights were approximately $1.7 million and $3.2 million, respectively. It is not practical

to separately report earnings related to the products acquired from Vascular Insights, as we cannot split out sales costs related solely to the products we acquired from Vascular Insights, principally because our sales representatives sell multiple products (including the products we acquired from Vascular Insights) in our cardiovascular business segment. Acquisition-related costs associated with the Vascular Insights acquisition, which were included in selling, general and administrative expenses during the year ended December 31, 2018, were not material. The purchase price was preliminarily allocated as follows (in thousands):

| | | |
|---|---|---|
| Inventories | $ | 1,353 |
| Intangibles | | |
| Developed technology | | 32,750 |
| Customer list | | 840 |
| Trademarks | | 1,410 |
| Goodwill | | 21,847 |
| | | |
| **Total net assets acquired** | **$** | **58,200** |

We are amortizing the developed technology intangible asset acquired from Vascular Insights over 12 years, the related trademarks over nine years and the customer list on an accelerated basis over eight years. The total weighted-average amortization period for these acquired intangible assets is approximately 11.8 years.

On November 13, 2018, we consummated an acquisition transaction contemplated by a merger agreement to acquire Cianna Medical, Inc. ("Cianna Medical"). The purchase consideration consisted of an upfront payment of $135 million plus a final working capital adjustment of approximately $1.2 million in cash, with potential earn-out payments of up to an additional $15 million for achievement of supply chain and scalability metrics and up to an additional $50 million for the achievement of sales milestones specified in the merger agreement. Cianna Medical developed the first non-radioactive, wire-free breast cancer localization system. Its SCOUT® and SAVI® Brachy technologies are FDA-cleared and address unmet needs in the delivery of radiation therapy, tumor localization and surgical guidance. We accounted for this acquisition as a business combination. During the three and six-month periods ended June 30, 2019, net sales of Cianna Medical products were approximately $11.2 million and $24.1 million, respectively. It is not practical to separately report earnings related to the products acquired from Cianna Medical, as we cannot split out sales costs related solely to the products we acquired from Cianna Medical, principally because our sales representatives sell multiple products (including the products we acquired from Cianna Medical) in our cardiovascular business segment. Acquisition-related costs associated with the Cianna Medical acquisition, which were included in selling, general and administrative expenses during the year ended December 31, 2018, were approximately $3.5 million. The following table summarizes the preliminary purchase price allocated to the net assets acquired from Cianna Medical (in thousands):

| | | |
|---|---|---|
| **Assets Acquired** | | |
| Trade receivables | $ | 6,151 |
| Inventories | | 5,803 |
| Prepaid expenses and other current assets | | 315 |
| Property and equipment | | 1,047 |
| Other long-term assets | | 14 |
| Intangibles | | |
| Developed technology | | 134,510 |
| Customer lists | | 3,330 |
| Trademarks | | 7,080 |
| Goodwill | | 65,802 |
| Total assets acquired | | 224,052 |
| | | |
| **Liabilities Assumed** | | |
| Trade payables | | (1,497) |
| Accrued expenses | | (2,384) |
| Other long-term liabilities | | (1,527) |
| Deferred income tax liabilities | | (30,363) |
| Total liabilities assumed | | (35,771) |
| | | |
| **Total net assets acquired** | $ | 188,281 |

We are amortizing the developed technology intangible assets of Cianna Medical over 11 years, the related trademarks over ten years and the customer lists on an accelerated basis over eight years. The total weighted-average amortization period for these acquired intangible assets is approximately 10.7 years.

On May 23, 2018, we entered into an asset purchase agreement with DirectACCESS Medical, LLC (“DirectACCESS”) to acquire its assets, including certain product distribution agreements for the FirstChoice™ Ultra High Pressure PTA Balloon Catheter. We accounted for this acquisition as a business combination. The purchase price for the assets was approximately $7.3 million. The sales and results of operations related to the acquisition have been included in our cardiovascular segment since the acquisition date and were not material. Acquisition-related costs associated with the DirectACCESS acquisition, which were included in selling, general and administrative expenses during the year ended December 31, 2018, were not material. The purchase price was allocated as follows (in thousands):

| | | |
|---|---|---|
| Inventories | $ | 971 |
| Intangibles | | |
| Developed technology | | 4,840 |
| Customer list | | 120 |
| Trademarks | | 400 |
| Goodwill | | 938 |
| | | |
| **Total net assets acquired** | **$** | **7,269** |

We are amortizing the developed technology intangible asset of DirectACCESS over ten years, the related trademarks over ten years and the customer list on an accelerated basis over five years. The total weighted-average amortization period for these acquired intangible assets is approximately 9.9 years.

On February 14, 2018, we acquired certain divested assets from Becton, Dickinson and Company ("BD"), for an aggregate purchase price of $100.3 million. The assets acquired include the soft tissue core needle biopsy products sold under the tradenames of Achieve® Programmable Automatic Biopsy System, Temno® Biopsy System and Tru-Cut® Biopsy Needles, as well as the Aspira® Pleural Effusion Drainage Kits, and the Aspira® Peritoneal Drainage System. We accounted for this acquisition as a

business combination. During the three and six-month periods ended June 30, 2019, our net sales of BD products were approximately $11.8 million and $23.4 million, respectively. It is not practical to separately report earnings related to the products acquired from BD, as we cannot split out sales costs related solely to the products we acquired from BD, principally because our sales representatives sell multiple products (including the products we acquired from BD) in our cardiovascular business segment. Acquisition-related costs associated with the BD acquisition, which were included in selling, general and administrative expenses during the year ended December 31, 2018, were approximately $1.8 million. The following table summarizes the purchase price allocated to the assets acquired from BD (in thousands):

| | | |
|---|---|---|
| Inventories | $ | 5,804 |
| Property and equipment | | 748 |
| Intangibles | | |
| Developed technology | | 74,000 |
| Customer list | | 4,200 |
| Trademarks | | 4,900 |
| In-process technology | | 2,500 |
| Goodwill | | 9,728 |
| | | |
| **Total net assets acquired** | **$** | **101,880** |

We are amortizing the developed technology intangible assets acquired from BD over eight years, the related trademarks over nine years and the customer lists on an accelerated basis over seven years. The total weighted-average amortization period for these acquired intangible assets is eight years.

The following table summarizes our consolidated results of operations for the three and six-month periods ended June 30, 2018, as well as unaudited pro forma consolidated results of operations as though the acquisition of Cianna Medical and Vascular Insights had occurred on January 1, 2017 (in thousands, except per common share amounts):

| | Three Months Ended June 30, 2018 | | Six Months Ended June 30, 2018 | |
|---|---|---|---|---|
| | As Reported | Pro Forma | As Reported | Pro Forma |
| Net sales | $ 224,810 | $ 238,272 | $ 427,844 | $ 452,451 |
| Net income | 10,941 | 6,842 | 16,210 | 5,016 |
| Earnings per common share: | | | | |
| Basic | $ 0.22 | $ 0.14 | $ 0.32 | $ 0.10 |
| Diluted | $ 0.21 | $ 0.13 | $ 0.31 | $ 0.10 |

* The pro forma results for the three and six-month periods ended June 30, 2019 are not included in the table above because the operating results for the Cianna Medical and Vascular Insights acquisitions were included in our consolidated statements of income for these periods.

The unaudited pro forma information set forth above is for informational purposes only and includes adjustments related to the step-up of acquired inventories, amortization expense of acquired intangible assets and interest expense on long-term debt. The pro forma information should not be considered indicative of actual results that would have been achieved if the acquisition of Cianna Medical and Vascular Insights had occurred on January 1, 2017, or results that may be obtained in any future period. The pro forma consolidated results of operations do not include the acquisition of assets from BD because it was deemed impracticable to obtain information to determine net income associated with the acquired product lines which represent a small product line of a large, consolidated company without standalone financial information. The pro forma consolidated results of operations do not include the Brightwater or DirectACCESS acquisitions, as we do not deem the pro forma effect of these transactions to be material.

The goodwill arising from the acquisitions discussed above consists largely of the synergies and economies of scale we hope to achieve from combining the acquired assets and operations with our historical operations. The goodwill recognized from certain acquisitions is expected to be deductible for income tax purposes.

**6. Revenue from Contracts with Customers.**

In accordance with Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASC 606"), we recognize revenue when a customer obtains control of promised goods. The amount of revenue recognized reflects the consideration we expect to receive in exchange for these goods.

*Disaggregation of Revenue*

The disaggregation of revenue is based on type of product and geographical region. For descriptions of our product offerings and segments, see Note 13 in our 2018 Form 10-K.

The following tables present revenue from contracts with customers for the three and six-month periods ended June 30, 2019 and 2018 (in thousands):

| | Three Months Ended June 30, 2019 | | | Three Months Ended June 30, 2018 | | |
|---|---|---|---|---|---|---|
| | United States | International | Total | United States | International | Total |
| **Cardiovascular** | | | | | | |
| Stand-alone devices | $ 55,906 | $ 47,616 | $ 103,522 | $ 50,941 | $ 41,555 | $ 92,496 |
| Cianna Medical | 11,230 | 7 | 11,237 | — | — | — |
| Custom kits and procedure trays | 23,124 | 11,219 | 34,343 | 23,667 | 10,325 | 33,992 |
| Inflation devices | 8,347 | 15,968 | 24,315 | 8,160 | 16,145 | 24,305 |
| Catheters | 20,696 | 24,648 | 45,344 | 16,704 | 22,670 | 39,374 |
| Embolization devices | 5,274 | 8,734 | 14,008 | 5,094 | 7,630 | 12,724 |
| CRM/EP | 11,536 | 2,361 | 13,897 | 11,758 | 1,738 | 13,496 |
| Total | 136,113 | 110,553 | 246,666 | 116,324 | 100,063 | 216,387 |
| **Endoscopy** | | | | | | |
| Endoscopy devices | 8,549 | 317 | 8,866 | 8,121 | 302 | 8,423 |
| Total | $ 144,662 | $ 110,870 | $ 255,532 | $ 124,445 | $ 100,365 | $ 224,810 |

| | Six Months Ended June 30, 2019 | | | Six Months Ended June 30, 2018 | | |
|---|---|---|---|---|---|---|
| | United States | International | Total | United States | International | Total |
| **Cardiovascular** | | | | | | |
| Stand-alone devices | $ 109,305 | $ 89,643 | $ 198,948 | $ 94,953 | $ 80,789 | $ 175,742 |
| Cianna Medical | 24,078 | 7 | 24,085 | — | — | — |
| Custom kits and procedure trays | 45,179 | 22,107 | 67,286 | 45,984 | 21,280 | 67,264 |
| Inflation devices | 16,320 | 30,013 | 46,333 | 15,828 | 30,896 | 46,724 |
| Catheters | 40,108 | 48,275 | 88,383 | 31,974 | 41,265 | 73,239 |
| Embolization devices | 9,980 | 15,855 | 25,835 | 10,126 | 15,184 | 25,310 |
| CRM/EP | 21,635 | 4,641 | 26,276 | 20,596 | 3,366 | 23,962 |
| Total | 266,605 | 210,541 | 477,146 | 219,461 | 192,780 | 412,241 |
| **Endoscopy** | | | | | | |
| Endoscopy devices | 16,117 | 618 | 16,735 | 15,040 | 563 | 15,603 |
| Total | $ 282,722 | $ 211,159 | $ 493,881 | $ 234,501 | $ 193,343 | $ 427,844 |

**7. Segment Reporting.** We report our operations in two operating segments: cardiovascular and endoscopy. Our cardiovascular segment consists of cardiology and radiology medical device products which assist in diagnosing and treating coronary artery

disease, peripheral vascular disease and other non-vascular diseases and includes embolotherapeutic, cardiac rhythm management ("CRM"), electrophysiology ("EP"), critical care, interventional oncology and spine devices, and our Cianna Medical product line. Our endoscopy segment focuses on the gastroenterology, pulmonary and thoracic surgery specialties, with a portfolio consisting primarily of stents, dilation balloons, certain inflation devices, guide wires, and other disposable products. We evaluate the performance of our operating segments based on net sales and operating income.

Financial information relating to our reportable operating segments and reconciliations to the consolidated totals for the three and six-month periods ended June 30, 2019 and 2018, are as follows (in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| **Net Sales** | | | | |
| Cardiovascular | $ 246,666 | $ 216,387 | $ 477,146 | $ 412,241 |
| Endoscopy | 8,866 | 8,423 | 16,735 | 15,603 |
| Total net sales | 255,532 | 224,810 | 493,881 | 427,844 |
| | | | | |
| **Operating Income** | | | | |
| Cardiovascular | 9,855 | 12,663 | 17,474 | 19,060 |
| Endoscopy | 2,346 | 2,451 | 4,250 | 4,835 |
| Total operating income | 12,201 | 15,114 | 21,724 | 23,895 |
| | | | | |
| Total other expense - net | (3,202) | (3,549) | (5,879) | (5,970) |
| | | | | |
| Income tax expense | 2,140 | 624 | 2,791 | 1,715 |
| | | | | |
| Net income | $ 6,859 | $ 10,941 | $ 13,054 | $ 16,210 |

**8. Recently Issued Financial Accounting Standards.**

***Recently Adopted***

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, *Leases (Topic 842)* ("ASC 842"), which requires lessees to recognize right-of-use ("ROU") assets and related lease liabilities on the balance sheet for all leases greater than one year in duration. We adopted ASC 842 on January 1, 2019 using a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach did not require any transition accounting for leases that expired before the earliest comparative period presented. The adoption of this standard resulted in the recording of ROU assets and lease liabilities for all of our lease agreements with original terms of greater than one year. The adoption of ASC 842 did not have a significant impact on our consolidated statements of operations or cash flows. See Note 14 for the required disclosures relating to our lease agreements.

In June 2018, the FASB issued ASU 2018-07, *Compensation-Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*, which simplifies the accounting for nonemployee share-based payment transactions by expanding the scope of ASC Topic 718, *Compensation - Stock Compensation*, to include share-based payment transactions for acquiring goods and services from nonemployees. Under the new standard, most of the guidance on stock compensation payments to nonemployees would be aligned with the requirements for share-based payments granted to employees. This standard became effective for us on January 1, 2019. The adoption of this standard did not have a material impact on our consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, *Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income,* which allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from U.S. federal tax legislation commonly referred to as the Tax Cuts and Jobs Act, which was enacted in December 2017 (the "2017 Tax Act"). ASU 2018-02

became effective for us on January 1, 2019. The adoption of this standard did not have a material impact on our consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*, which expands and refines hedge accounting for both financial and non-financial risk components, aligns the recognition and presentation of the effects of hedging instruments and hedge items in the financial statements, and includes certain targeted improvements to ease the application of current guidance related to the assessment of hedge effectiveness. ASU 2017-12 became effective for us on January 1, 2019. The adoption of this standard did not have a material impact on our consolidated financial statements.

***Not Yet Adopted***

In August 2018, the FASB issued ASU 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract,* which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). ASU 2018-15 is effective for annual periods beginning after December 15, 2019, including interim periods within those annual periods. Early adoption is permitted. We are currently assessing the impact of this standard on our consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820)*, which removes, modifies and adds various disclosure requirements related to fair value disclosures. Disclosures related to transfers between fair value hierarchy levels will be removed and further detail around changes in unrealized gains and losses for the period and unobservable inputs used in determining level 3 fair value measurements will be added, among other changes. ASU 2018-13 is effective for interim and annual reporting periods beginning after December 15, 2019, and early adoption is permitted. We are currently assessing the impact of this standard on our consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,* which replaces the current incurred loss impairment methodology for financial assets measured at amortized cost with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information, including forecasted information, to develop credit loss estimates. ASU 2016-13 is effective for annual periods beginning after December 15, 2019, including interim periods within those annual periods. Early adoption is permitted for annual periods beginning after December 15, 2018. We are currently assessing the impact of this standard on our consolidated financial statements.

We do not believe any other issued and not yet effective accounting standards will be relevant to our consolidated financial statements.

**9. Income Taxes.** Our overall effective tax rate for the three months ended June 30, 2019 and 2018 was 23.8% and 5.4%, respectively, which resulted in a provision for income taxes of approximately $2.1 million and $0.6 million, respectively. Our overall effective tax rate for the six months ended June 30, 2019 and 2018 was 17.6% and 9.6%, respectively, which resulted in a provision for income taxes of approximately $2.8 million and $1.7 million, respectively. The increase in the effective tax rate for both periods, when compared to the prior-year periods, was primarily due to a lower discrete tax benefit for share-based payment awards and a discrete expense related to the fair value adjustment of the contingent liability of a recent equity acquisition, Cianna Medical.

**10. Revolving Credit Facility and Long-Term Debt.** Principal balances outstanding under our long-term debt obligations as of June 30, 2019 and December 31, 2018, consisted of the following (in thousands):

| | June 30, 2019 | December 31, 2018 |
|---|---|---|
| 2016 Term loan | $ 65,000 | $ 72,500 |
| 2016 Revolving credit loans | 335,500 | 316,000 |
| Collateralized debt facility | — | 7,000 |
| Less unamortized debt issuance costs | (279) | (348) |
| Total long-term debt | 400,221 | 395,152 |
| Less current portion | 15,000 | 22,000 |
| Long-term portion | $ 385,221 | $ 373,152 |

*2016 Term Loan and Revolving Credit Loans*

On July 6, 2016, we entered into a Second Amended and Restated Credit Agreement (as amended to date, the "Second Amended Credit Agreement"), with Wells Fargo Bank, National Association, as administrative agent, swingline lender and a lender, and Wells Fargo Securities, LLC, as sole lead arranger and sole bookrunner. In addition to Wells Fargo Bank, National Association, Bank of America, N.A., U.S. Bank, National Association, and HSBC Bank USA, National Association, are parties to the Second Amended Credit Agreement as lenders. The Second Amended Credit Agreement amends and restates in its entirety our previously outstanding Amended and Restated Credit Agreement and all amendments thereto. The Second Amended Credit Agreement was amended on September 28, 2016 to allow for a new revolving credit loan to our wholly-owned subsidiary, on March 20, 2017 to allow flexibility in how we apply net proceeds received from equity issuances to prepay outstanding indebtedness, on December 13, 2017 to increase the revolving credit commitment by $100 million to $375 million, and on March 28, 2018 to amend certain debt covenants.

The Second Amended Credit Agreement provides for a term loan of $150 million and a revolving credit commitment up to an aggregate amount of $375 million, which includes a reserve of $25 million to make swingline loans from time to time. The term loan is payable in quarterly installments in the amounts provided in the Second Amended Credit Agreement until the maturity date of July 6, 2021, at which time the term and revolving credit loans, together with accrued interest thereon, will be due and payable. At any time prior to the maturity date, we may repay any amounts owing under all revolving credit loans, term loans, and all swingline loans in whole or in part, subject to certain minimum thresholds, without premium or penalty, other than breakage costs.

Revolving credit loans denominated in dollars and term loans made under the Second Amended Credit Agreement bear interest, at our election, at either a Base Rate or Eurocurrency Base Rate (as such terms are defined in the Second Amended Credit Agreement) plus the applicable margin, which increases as our Consolidated Total Leverage Ratio (as defined in the Second Amended Credit Agreement) increases. Revolving credit loans denominated in an Alternative Currency (as defined in the Second Amended Credit Agreement) bear interest at the Eurocurrency rate plus the applicable margin. Swingline loans bear interest at the Base Rate plus the applicable margin. Upon an event of default, the interest rate may be increased by 2.0%. The revolving credit commitment also carries a commitment fee of 0.15% to 0.40% per annum on the unused portion.

The Second Amended Credit Agreement is collateralized by substantially all our assets. The Second Amended Credit Agreement contains covenants, representations and warranties, and other terms customary for loans of this nature. The Second Amended Credit Agreement requires that we maintain certain financial covenants, as follows:

| | Covenant Requirement |
|---|---|
| Consolidated Total Leverage Ratio [1] | |
| January 1, 2018 and thereafter | 3.5 to 1.0 |
| Consolidated EBITDA [2] | 1.25 to 1.0 |
| Consolidated Net Income [3] | $0 |
| Facility Capital Expenditures [4] | $30 million |

(1) Maximum Consolidated Total Leverage Ratio (as defined in the Second Amended Credit Agreement) as of any fiscal quarter end.

(2) Minimum ratio of Consolidated EBITDA (as defined in the Second Amended Credit Agreement and adjusted for certain expenditures) to Consolidated Fixed Charges (as defined in the Second Amended Credit Agreement) for any period of four consecutive fiscal quarters.

(3) Minimum level of Consolidated Net Income (as defined in the Second Amended Credit Agreement) for certain periods, and subject to certain adjustments.

(4) Maximum level of the aggregate amount of all Facility Capital Expenditures (as defined in the Second Amended Credit Agreement) in any fiscal year.

Additionally, the Second Amended Credit Agreement contains customary events of default and affirmative and negative covenants for transactions of this type. As of June 30, 2019, we believe we were in compliance with all covenants set forth in the Second Amended Credit Agreement.

As of June 30, 2019, we had outstanding borrowings of approximately $400.5 million under the Second Amended Credit Agreement, with additional available borrowings of approximately $38.7 million, based on the leverage ratio required pursuant to the Second Amended Credit Agreement. Our interest rate as of June 30, 2019 was a fixed rate of 2.37% on $175 million as a result an interest rate swap (see Note 11) and a variable floating rate of 3.65% on $225.5 million. Our interest rate as of December 31, 2018 was a fixed rate of 2.12% on $175 million as a result of an interest rate swap and a variable floating rate of 3.52% on $213.5 million.

*Future Payments*

Future minimum principal payments on our long-term debt as of June 30, 2019, are as follows (in thousands):

| Years Ending December 31 | Future Minimum Principal Payments |
|---|---|
| Remaining 2019 | $ 7,500 |
| 2020 | 17,500 |
| 2021 | 375,500 |
| Total future minimum principal payments | $ 400,500 |

Subsequent to June 30, 2019, the Second Amended and Restated Credit Agreement was amended and restated in its entirety. See Note 16 below.

**11. Derivatives.**

**General.** Our earnings and cash flows are subject to fluctuations due to changes in interest rates and foreign currency exchange rates, and we seek to mitigate a portion of these risks by entering into derivative contracts. The derivatives we use are interest rate swaps and foreign currency forward contracts. We recognize derivatives as either assets or liabilities at fair value in the accompanying consolidated balance sheets, regardless of whether or not hedge accounting is applied. We report cash flows arising from our hedging instruments consistent with the classification of cash flows from the underlying hedged items. Accordingly, cash flows associated with our derivative instruments are classified as operating activities in the accompanying consolidated statements of cash flows.

We formally document, designate and assess the effectiveness of transactions that receive hedge accounting initially and on an ongoing basis. Changes in the fair value of derivatives that qualify for hedge accounting treatment are recorded, net of applicable taxes, in accumulated other comprehensive income (loss), a component of stockholders' equity in the accompanying consolidated balance sheets. When the hedged transaction occurs, gains or losses are reclassified into earnings in the same line item associated with the forecasted transaction and in the same period or periods during which the hedged transaction affects earnings. Changes in the fair value of derivatives not designated as hedging instruments are recorded in earnings throughout the term of the derivative.

**Interest Rate Risk.** A portion of our debt bears interest at variable interest rates and, therefore, we are subject to variability in the cash paid for interest expense. In order to mitigate a portion of this risk, we use a hedging strategy to reduce the variability of cash flows in the interest payments associated with a portion of the variable-rate debt outstanding under our Second Amended Credit Agreement that is solely due to changes in the benchmark interest rate.

*Derivative Instruments Designated as Cash Flow Hedges*

On August 5, 2016, we entered into a pay-fixed, receive-variable interest rate swap with a current notional amount of $175 million with Wells Fargo to fix the one-month LIBOR rate at 1.12%. The variable portion of the interest rate swap is tied to the one-month LIBOR rate (the benchmark interest rate). On a monthly basis, the interest rates under both the interest rate swap and the underlying debt reset, the swap is settled with the counterparty, and interest is paid. The interest rate swap is scheduled to expire on July 6, 2021.

At June 30, 2019 and December 31, 2018, our interest rate swap qualified as a cash flow hedge. The fair value of our interest rate swap at June 30, 2019 was an asset of approximately $1.9 million, which was partially offset by approximately $0.5 million in

deferred taxes. The fair value of our interest rate swap at December 31, 2018 was an asset of approximately $5.8 million, which was offset by approximately $1.5 million in deferred taxes.

**Foreign Currency Risk.** We operate on a global basis and are exposed to the risk that our financial condition, results of operations, and cash flows could be adversely affected by changes in foreign currency exchange rates. To reduce the potential effects of foreign currency exchange rate movements on net earnings, we enter into derivative financial instruments in the form of foreign currency exchange forward contracts with major financial institutions. Our policy is to enter into foreign currency derivative contracts with maturities of up to two years. We are primarily exposed to foreign currency exchange rate risk with respect to transactions and balances denominated in Euros, British Pounds, Chinese Renminbi, Mexican Pesos, Brazilian Reals, Australian Dollars, Hong Kong Dollars, Swiss Francs, Swedish Krona, Canadian Dollars, Danish Krone, Japanese Yen, Korean Won, and Singapore Dollars. We do not use derivative financial instruments for trading or speculative purposes. We are not subject to any credit risk contingent features related to our derivative contracts, and counterparty risk is managed by allocating derivative contracts among several major financial institutions.

*Derivative Instruments Designated as Cash Flow Hedges*

We enter into forward contracts on various foreign currencies to manage the risk associated with forecasted exchange rates which impact revenues, cost of sales, and operating expenses in various international markets. The objective of the hedges is to reduce the variability of cash flows associated with the forecasted purchase or sale of the associated foreign currencies. We enter into approximately 150 cash flow foreign currency hedges every month. As of June 30, 2019, we had entered into foreign currency forward contracts, which qualified as cash flow hedges, with the following notional amounts (in thousands and in local currencies):

| Currency | Symbol | Forward Notional Amount |
|---|---|---|
| Australian Dollar | AUD | 3,430 |
| Brazilian Real | BRL | 1,080 |
| Canadian Dollar | CAD | 4,330 |
| Swiss Franc | CHF | 1,970 |
| Chinese Renminbi | CNY | 166,500 |
| Danish Krone | DKK | 18,175 |
| Euro | EUR | 22,600 |
| British Pound | GBP | 4,820 |
| Japanese Yen | JPY | 1,335,000 |
| Korean Won | KRW | 4,475,000 |
| Mexican Peso | MXN | 296,500 |
| Norwegian Krone | NOK | 6,000 |
| Swedish Krona | SEK | 29,210 |

*Derivative Instruments Not Designated as Cash Flow Hedges*

We forecast our net exposure in various receivables and payables to fluctuations in the value of various currencies, and we enter into foreign currency forward contracts to mitigate that exposure. We enter into approximately 20 foreign currency fair value hedges every month. As of June 30, 2019, we had entered into foreign currency forward contracts related to those balance sheet accounts, with the following notional amounts (in thousands and in local currencies):

| Currency | Symbol | Forward Notional Amount |
|---|---|---|
| Australian Dollar | AUD | 13,788 |
| Brazilian Real | BRL | 9,000 |
| Canadian Dollar | CAD | 2,652 |
| Swiss Franc | CHF | 643 |
| Chinese Renminbi | CNY | 85,226 |
| Danish Krone | DKK | 2,544 |
| Euro | EUR | 11,717 |
| British Pound | GBP | 5,653 |
| Hong Kong Dollar | HKD | 11,000 |
| Japanese Yen | JPY | 1,445,574 |
| Korean Won | KRW | 6,000,000 |
| Mexican Peso | MXN | 25,000 |
| Norwegian Krone | NOK | 3,180 |
| Swedish Krona | SEK | 17,154 |
| Singapore Dollar | SGD | 1,676 |
| South African Rand | ZAR | 37,800 |

**Balance Sheet Presentation of Derivative Instruments.** As of June 30, 2019, and December 31, 2018, all derivative instruments, both those designated as hedging instruments and those that were not designated as hedging instruments, were recorded gross at fair value on our consolidated balance sheets. We are not subject to any master netting agreements.

The fair value of derivative instruments on a gross basis was as follows on the dates indicated (in thousands):

| | | Fair Value | |
|---|---|---|---|
| | Balance Sheet Location | June 30, 2019 | December 31, 2018 |
| ***Derivative instruments designated as hedging instruments*** | | | |
| *Assets* | | | |
| Interest rate swap | Other assets (long-term) | $ 1,907 | $ 5,772 |
| Foreign currency forward contracts | Prepaid expenses and other assets | 960 | 613 |
| Foreign currency forward contracts | Other assets (long-term) | 244 | 151 |
| | | | |
| *Liabilities* | | | |
| Foreign currency forward contracts | Accrued expenses | (778) | (711) |
| Foreign currency forward contracts | Other long-term obligations | (101) | (101) |
| | | | |
| ***Derivative instruments not designated as hedging instruments*** | | | |
| *Assets* | | | |
| Foreign currency forward contracts | Prepaid expenses and other assets | $ 229 | $ 814 |
| *Liabilities* | | | |
| Foreign currency forward contracts | Accrued expenses | (1,539) | (796) |

**Income Statement Presentation of Derivative Instruments.**

*Derivative Instruments Designated as Cash Flow Hedges*

Derivative instruments designated as cash flow hedges had the following effects, before income taxes, on other comprehensive income and net earnings in our consolidated statements of income, consolidated statements of comprehensive income and consolidated balance sheets (in thousands):

| | Amount of Gain/(Loss) recognized in OCI | | | Consolidated Statements of Income | | Amount of Gain/(Loss) reclassified from AOCI | |
|---|---|---|---|---|---|---|---|
| | Three Months Ended June 30, | | | Three Months Ended June 30, | | Three Months Ended June 30, | |
| | 2019 | 2018 | | 2019 | 2018 | 2019 | 2018 |
| **Derivative instrument** | | | **Location in statements of income** | | | | |
| *Interest rate swaps* | $ (1,812) | $ 748 | *Interest expense* | $ (3,115) | $ (3,338) | $ 602 | $ 357 |
| *Foreign currency forward contracts* | 1,064 | 394 | *Revenue* | 255,532 | 224,810 | (92) | (234) |
| | | | *Cost of sales* | (143,568) | (124,801) | (104) | 138 |

| | Amount of Gain/(Loss) recognized in OCI | | | Consolidated Statements of Income | | Amount of Gain/(Loss) reclassified from AOCI | |
|---|---|---|---|---|---|---|---|
| | Six Months Ended June 30, | | | Six Months Ended June 30, | | Six Months Ended June 30, | |
| | 2019 | 2018 | | 2019 | 2018 | 2019 | 2018 |
| **Derivative instrument** | | | **Location in statements of income** | | | | |
| *Interest rate swaps* | (2,669) | $ 2,868 | *Interest expense* | (5,879) | (5,736) | $ 1,196 | $ 570 |
| *Foreign currency forward contracts* | 51 | 568 | *Revenue* | 493,881 | 427,844 | 102 | (385) |
| | | | *Cost of sales* | (277,281) | (239,779) | (185) | 378 |

As of June 30, 2019, approximately $6,200, or $4,600 after taxes, was expected to be reclassified from accumulated other comprehensive income to earnings in revenue and cost of sales over the succeeding twelve months. As of June 30, 2019, approximately $1.3 million, or $1.0 million after taxes, was expected to be reclassified from accumulated other comprehensive income to earnings in interest expense over the succeeding twelve months.

*Derivative Instruments Not Designated as Hedging Instruments*

The following gains/(losses) from these derivative instruments were recognized in our consolidated statements of income for the periods presented (in thousands):

| | | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|---|
| **Derivative Instrument** | **Location in statements of income** | **2019** | **2018** | **2019** | **2018** |
| *Foreign currency forward contracts* | Other expense | $ (489) | $ 3,153 | $ (755) | $ 2,038 |

**12. Fair Value Measurements.** Our financial assets and (liabilities) carried at fair value measured on a recurring basis as of June 30, 2019 and December 31, 2018, consisted of the following (in thousands):

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| Description | Total Fair Value at June 30, 2019 | Quoted prices in active markets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| Interest rate contracts [1] | $ 1,907 | $ — | $ 1,907 | $ — |
| Foreign currency contract assets, current and long-term [2] | $ 1,433 | $ — | $ 1,433 | $ — |
| Foreign currency contract liabilities, current and long-term [3] | $ (2,418) | $ — | $ (2,418) | $ — |
| Contingent receivable asset | $ 625 | $ — | $ — | $ 625 |
| Contingent consideration liabilities | $ (93,204) | $ — | $ — | $ (93,204) |

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| Description | Total Fair Value at December 31, 2018 | Quoted prices in active markets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| Interest rate contracts [1] | $ 5,772 | $ — | $ 5,772 | $ — |
| Foreign currency contract assets, current and long-term [2] | $ 1,578 | $ — | $ 1,578 | $ — |
| Foreign currency contract liabilities, current and long-term [3] | $ (1,608) | $ — | $ (1,608) | $ — |
| Contingent receivable asset | $ 607 | $ — | $ — | $ 607 |
| Contingent consideration liabilities | $ (82,236) | $ — | $ — | $ (82,236) |

(1) The fair value of the interest rate contracts is determined using Level 2 fair value inputs and is recorded as other assets or other long-term obligations in the consolidated balance sheets.
(2) The fair value of the foreign currency contract assets (including those designated as hedging instruments and those not designated as hedging instruments) is determined using Level 2 fair value inputs and is recorded as prepaid expenses and other assets or other long-term assets in the consolidated balance sheets.
(3) The fair value of the foreign currency contract liabilities (including those designated as hedging instruments and those not designated as hedging instruments) is determined using Level 2 fair value inputs and is recorded as accrued expenses or other long-term obligations in the consolidated balance sheets.

Certain of our business combinations involve the potential for the payment of future contingent consideration, generally based on a percentage of future product sales or upon attaining specified future revenue milestones. See Note 5 for further information regarding these acquisitions. The contingent consideration liability is re-measured at the estimated fair value at the end of each reporting period with the change in fair value recognized within operating expenses in the accompanying consolidated statements of income for such period. We measure the initial liability and re-measure the liability on a recurring basis using Level 3 inputs as defined under authoritative guidance for fair value measurements. Changes in the fair value of our contingent consideration liabilities during the three and six-month periods ended June 30, 2019 and 2018, consisted of the following (in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Beginning balance | $ 82,457 | $ 10,928 | $ 82,236 | $ 10,956 |
| Contingent consideration liability recorded as the result of acquisitions (see Note 5) | 8,400 | — | 8,380 | — |
| Fair value adjustments recorded to income | 2,404 | 99 | 3,199 | 86 |
| Contingent payments made | (57) | (115) | (611) | (130) |
| Ending balance | $ 93,204 | $ 10,912 | $ 93,204 | $ 10,912 |

As of June 30, 2019, approximately $68.6 million in contingent consideration liability was included in other long-term obligations and approximately $24.6 million was included in accrued expenses in our consolidated balance sheet. As of December 31, 2018, approximately $58.5 million in contingent consideration liability was included in other long-term obligations and $23.8 million was included in accrued expenses in our consolidated balance sheet. Cash paid to settle the contingent consideration liability recognized at fair value as of the acquisition date (including measurement-period adjustments) has been reflected as a cash outflow from financing activities in the accompanying consolidated statements of cash flows.

During the year ended December 31, 2016, we sold a cost method investment for cash and for the right to receive additional payments based on various contingent milestones. We determined the fair value of the contingent payments using Level 3 inputs defined under authoritative guidance for fair value measurements, and we recorded a contingent receivable asset, which as of June 30, 2019 and December 31, 2018 had a value of approximately $625,000 and $607,000, respectively, recorded as a current asset in other receivables in our consolidated balance sheets. We record any changes in fair value to operating expenses as part of our cardiovascular segment in our consolidated statements of income. During the three and six-month periods ended June 30, 2019, we recorded a gain (loss) on the contingent receivable of approximately $(2,000) and $18,000, respectively. During the three and six-month periods ended June 30, 2018, we recorded a loss of approximately $79,000 and $132,000, respectively and received payments of approximately $0 and $153,000, respectively related to the contingent receivable.

The recurring Level 3 measurement of our contingent consideration liability and contingent receivable included the following significant unobservable inputs at June 30, 2019 and December 31, 2018 (amounts in thousands):

| Contingent consideration asset or liability | Fair value at June 30, 2019 | Valuation technique | Unobservable inputs | Range |
|---|---|---|---|---|
| Revenue-based royalty payments contingent liability | $ 9,843 | Discounted cash flow | Discount rate | 14% - 25% |
| | | | Projected year of payments | 2019-2034 |
| Supply chain milestone contingent liability | $ 15,000 | Scenario-based method | Discount rate | 3.9% |
| | | | Probability of milestone payment | 100% |
| | | | Projected year of payments | 2019 |
| Revenue milestones contingent liability | $ 65,661 | Monte Carlo simulation | Discount rate | 3.1% - 19.5% |
| | | | Projected year of payments | 2019-2022 |
| Regulatory approval contingent liability | $ 2,700 | Scenario-based method | Discount rate | 5.3% |
| | | | Probability of milestone payment | 65% |
| | | | Projected year of payment | 2022 |
| Contingent receivable asset | $ 625 | Discounted cash flow | Discount rate | 10% |
| | | | Probability of milestone payment | 54% |
| | | | Projected year of payments | 2019 |

| Contingent consideration asset or liability | Fair value at December 31, 2018 | Valuation technique | Unobservable inputs | Range |
|---|---|---|---|---|
| Revenue-based royalty payments contingent liability | $ 10,661 | Discounted cash flow | Discount rate | 9.9% - 25% |
| | | | Projected year of payments | 2018-2037 |
| Supply chain milestone contingent liability | $ 13,593 | Discounted cash flow | Discount rate | 5.3% |
| | | | Probability of milestone payment | 95% |
| | | | Projected year of payments | 2019 |
| Revenue milestones contingent liability | $ 57,982 | Discounted cash flow | Discount rate | 3.3% - 13% |
| | | | Projected year of payments | 2019-2023 |
| Contingent receivable asset | $ 607 | Discounted cash flow | Discount rate | 10% |
| | | | Probability of milestone payment | 67% |
| | | | Projected year of payments | 2019 |

The contingent consideration liability and contingent receivable are re-measured to fair value each reporting period using projected revenues, discount rates, probabilities of payment, and projected payment dates. Projected revenues are based on our most recent internal operational budgets and long-range strategic plans. An increase (decrease) in either the discount rate or the time to payment, in isolation, may result in a significantly lower (higher) fair value measurement. A decrease in the probability of any milestone payment may result in lower fair value measurements. Our determination of the fair value of the contingent consideration liability and contingent receivable could change in future periods based upon our ongoing evaluation of these significant unobservable inputs. We intend to record any such change in fair value to operating expenses in our consolidated statements of income.

During the three and six-month periods ended June 30, 2019, we had losses of approximately $594,000 and $805,000, compared to losses of approximately $29,000 and $86,000, respectively for the three and six-month periods ended June 30, 2018, related to the measurement of non-financial assets at fair value on a nonrecurring basis subsequent to their initial recognition.

We believe the carrying amount of cash and cash equivalents, receivables, and trade payables approximate fair value because of the immediate, short-term maturity of these financial instruments. Our long-term debt re-prices frequently due to variable rates and entails no significant changes in credit risk and, as a result, we believe the fair value of long-term debt approximates carrying value. The fair value of assets and liabilities whose carrying value approximates fair value is determined using Level 2 inputs, with the exception of cash and cash equivalents, which are Level 1 inputs.

**13. Goodwill and Intangible Assets.** The changes in the carrying amount of goodwill for the six-month period ended June 30, 2019 were as follows (in thousands):

| | 2019 |
|---|---|
| Goodwill balance at January 1 | $ 335,433 |
| Effect of foreign exchange | (181) |
| Additions and adjustments as the result of acquisitions | 16,881 |
| Goodwill balance at June 30 | $ 352,133 |

Total accumulated goodwill impairment losses aggregated to approximately $8.3 million as of June 30, 2019 and December 31, 2018. We did not have any goodwill impairments for the six-month periods ended June 30, 2019 and 2018. The total goodwill balance as of June 30, 2019 and December 31, 2018, was related to our cardiovascular segment.

Other intangible assets at June 30, 2019 and December 31, 2018, consisted of the following (in thousands):

| | June 30, 2019 | | |
|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Patents | $ 20,985 | $ (5,850) | $ 15,135 |
| Distribution agreements | 8,012 | (6,280) | 1,732 |
| License agreements | 27,008 | (9,016) | 17,992 |
| Trademarks | 30,246 | (8,035) | 22,211 |
| Covenants not to compete | 1,028 | (1,016) | 12 |
| Customer lists | 40,009 | (26,092) | 13,917 |
| In-process technology | 3,420 | — | 3,420 |
| Total | $ 130,708 | $ (56,289) | $ 74,419 |

| | December 31, 2018 | | |
|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Patents | $ 19,378 | $ (5,012) | $ 14,366 |
| Distribution agreements | 8,012 | (5,766) | 2,246 |
| License agreements | 26,930 | (7,411) | 19,519 |
| Trademarks | 29,998 | (6,586) | 23,412 |
| Covenants not to compete | 1,028 | (1,000) | 28 |
| Customer lists | 39,936 | (23,361) | 16,575 |
| In-process technology | 3,420 | — | 3,420 |
| Total | $ 128,702 | $ (49,136) | $ 79,566 |

Aggregate amortization expense for the three and six-month periods ended June 30, 2019 was approximately $14.9 million and $29.7 million, respectively. Aggregate amortization expense for the three and six-month periods ended June 30, 2018 was approximately $10.4 million and $18.9 million, respectively.

During the three months ended June 30, 2019 we recorded an impairment charge of $548,000 for the discontinuation of our product associated with the assets acquired in our June 2017 acquisition of patent rights and other intellectual property related to the Repositionable Chest Tube and related devices from Lazarus Medical Technologies, LLC. We did not record any impairment charges during the three and six months ended June 30, 2018.

Estimated amortization expense for the developed technology and other intangible assets for the next five years consists of the following as of June 30, 2019 (in thousands):

| Year Ending December 31 | |
|---|---|
| Remaining 2019 | $ 30,817 |
| 2020 | 58,907 |
| 2021 | 51,550 |
| 2022 | 50,129 |
| 2023 | 48,830 |

**14. Leases.** We adopted ASC 842 using the modified retrospective approach, electing the practical expedient that allows us not to restate our comparative periods prior to the adoption of the standard on January 1, 2019. As such, the disclosures required under ASC 842 are not presented for periods before the date of adoption. For the comparative periods prior to adoption, we present the disclosures which were required under ASC 840.

We have operating leases for facilities used for manufacturing, research and development, sales and distribution, and office space, as well as leases for manufacturing and office equipment, vehicles, and land. Our leases have remaining terms of less than one year to approximately 19 years. A number of our lease agreements contain options to renew at our discretion for periods of up to 30 years and options to terminate the leases within one year. The lease term used to calculate right-of-use ("ROU") assets and lease liabilities includes renewal and termination options that are deemed reasonably certain to be exercised. Lease agreements with lease and non-lease components are generally accounted for as a single lease component. We do not have any bargain purchase options in our leases. For leases with an initial term of one year or less, we do not record a ROU asset or lease liability on our consolidated balance sheet. Substantially all of the ROU assets and lease liabilities as of June 30, 2019 recorded on our consolidated balance sheet are related to our cardiovascular segment.

We sublease a portion of one of our facilities to a third party. We also lease certain hardware consoles to customers and record rental revenue as a component of net sales. Rental revenue under such console leasing arrangements for the three and six months ended June 30, 2019 and 2018 was not significant.

The following was included in our consolidated balance sheet as of June 30, 2019 (in thousands):

| Leases | | As of June 30, 2019 |
|---|---|---|
| *Assets* | | |
| ROU operating lease assets | $ | 79,309 |
| | | |
| *Liabilities* | | |
| Short-term operating lease liabilities | $ | 11,732 |
| Long-term operating lease liabilities | | 71,272 |
| Total operating lease liabilities | $ | 83,004 |

During the year ended December 31, 2015, we entered into sale and leaseback transactions to finance certain production equipment for approximately $2.0 million. At that time, we deferred the gain from the sale and leaseback transaction, of which approximately $93,000 remained as of December 31, 2018. As part of the adoption of ASC 842, we wrote-off the deferred gain as an adjustment to equity through retained earnings during the three months ended March 31, 2019.

We recognize lease expense on a straight-line basis over the term of the lease. The components of lease costs for the three and six months ended June 30, 2019 are as follows, in thousands:

| Lease Cost | Classification | | Three months ended June 30, 2019 | | Six months ended June 30, 2019 |
|---|---|---|---|---|---|
| Operating lease cost (a) | Selling, general and administrative expenses | $ | 4,172 | $ | 8,398 |
| Sublease (income) (b) | Selling, general and administrative expenses | | (146) | | (292) |
| Net lease cost | | $ | 4,026 | $ | 8,106 |

(a) Includes expense related to short-term leases and variable payments, which were not significant.
(b) Does not include rental revenue from leases of hardware consoles to customers, which was not significant.

Supplemental cash flow information for the six months ended June 30, 2019 is as follows:

| | | Six months ended June 30, 2019 |
|---|---|---|
| Cash paid for amounts included in the measurement of lease liabilities | $ | 7,267 |
| Right-of-use assets obtained in exchange for lease obligations | $ | 2,927 |

Generally, our lease agreements do not specify an implicit rate. Therefore, we estimate our incremental borrowing rate, which is defined as the interest rate we would pay to borrow on a collateralized basis, considering such factors as length of lease term and the risks of the economic environment in which the leased asset operates. As of June 30, 2019, the following disclosures for remaining lease term and incremental borrowing rates were applicable:

| Supplemental disclosure | June 30, 2019 |
|---|---|
| Weighted average remaining lease term | 12 years |
| Weighted average discount rate | 3.3% |

As of June 30, 2019, maturities of operating lease liabilities were as follows, in thousands:

| Year ended December 31, | Amounts due under Operating Leases |
|---|---|
| Remaining 2019 | $ 7,064 |
| 2020 | 12,789 |
| 2021 | 11,762 |
| 2022 | 9,361 |
| 2023 | 7,381 |
| Thereafter | 53,588 |
| Total lease payments | 101,945 |
| Less: Imputed interest | (18,941) |
| Total | $ 83,004 |

As previously disclosed in our 2018 Form 10-K under the prior guidance of ASC 840, minimum payments under operating lease agreements as of December 31, 2018 were as follows, in thousands:

| Year ended December 31, | Operating Leases |
|---|---|
| 2019 | $ 13,421 |
| 2020 | 11,319 |
| 2021 | 9,995 |
| 2022 | 8,053 |
| 2023 | 6,953 |
| Thereafter | 52,754 |
| Total minimum lease payments | $ 102,495 |

As of June 30, 2019, we had additional operating leases for office space that had not yet commenced. These leases will commence during 2019 and are not deemed material.

**15. Commitments and Contingencies.** In the ordinary course of business, we are involved in various claims and litigation matters. These claims and litigation matters may include actions involving product liability, intellectual property, contract disputes, and employment or other matters that are significant to our business. Based upon our review of currently available information, we do not believe any such actions are likely to be, individually or in the aggregate, materially adverse to our business, financial condition, results of operations or liquidity.

In addition to the foregoing matters, in October 2016, we received a subpoena from the U.S. Department of Justice seeking information on certain of our marketing and promotional practices. We are in the process of responding to the subpoena, which we anticipate will continue during 2019. We have incurred, and anticipate that we will continue to incur, substantial costs in connection with the matter. The investigation is ongoing and at this stage we are unable to predict its scope, duration or outcome. Investigations such as this may result in the imposition of, among other things, significant damages, injunctions, fines or civil or criminal claims or penalties against our company or individuals. Legal expenses we incurred in responding to the U.S. Department of Justice subpoena for the three and six-month periods ended June 30, 2019 were approximately $1.0 million and $2.7 million, respectively.

In the event of unexpected further developments, it is possible that the ultimate resolution of any of the foregoing matters, or other similar matters, if resolved in a manner unfavorable to us, may be materially adverse to our business, financial condition, results of operations or liquidity. Legal costs for these matters, such as outside counsel fees and expenses, are charged to expense in the period incurred.

**16. Subsequent Events.** We have evaluated whether any subsequent events have occurred from June 30, 2019 to the time of filing of this report that would require disclosure in the consolidated financial statements. We note the following events below.

*Third Amended and Restated Credit Agreement*

On July 31, 2019, we entered into a Third Amended and Restated Credit Agreement (as amended to date, the "Third Amended Credit Agreement"), with Wells Fargo Bank, National Association, as administrative agent, swingline lender and a lender, and Wells Fargo Securities, LLC, BOFA Securities, Inc. and HSBC Bank USA, National Association, as joint lead arrangers and joint bookrunners. In addition, Bank of America, N.A., U.S. Bank, National Association, and HSBC Bank USA, National Association, are parties to the Third Amended Credit Agreement as lenders. The Third Amended Credit Agreement amends and restates in its entirety our previously outstanding Second Amended and Restated Credit Agreement and all amendments thereto.

The Third Amended Credit Agreement provides for a term loan of $150 million and a revolving credit commitment up to an aggregate amount of $600 million, inclusive of sub-facilities of $40 million for multicurrency borrowings, $40 million for standby letters of credit and $30 million for swingline loans from time to time. On July 31, 2024, all principal, interest and other amounts outstanding under the Third Amended Credit Agreement are payable in full. At any time prior to the maturity date, we may repay any amounts owing under all revolving credit loans and all swingline loans in whole or in part, without premium or penalty, other than breakage fees payable of Eurocurrency Rate Loans (as defined in the Third Amended Credit Agreement).

Revolving credit loans denominated in dollars and term loans made under the Third Amended Credit Agreement bear interest, at our election, at either the Base Rate or the Eurocurrency Rate (as such terms are defined in the Third Amended Credit Agreement) plus the Applicable Margin (as defined in the Third Amended Credit Agreement). Revolving credit loans denominated in an Alternative Currency (as defined in the Third Amended Credit Agreement) bear interest at the Eurocurrency Rate plus the Applicable Margin. Swingline loans bear interest at the Base Rate plus the Applicable Margin. Interest on each loan featuring the Base Rate is due and payable on the last business day of each calendar quarter commencing September 30, 2019; interest on each loan featuring the Eurocurrency Rate is due and payable on the last day of each interest period applicable thereto, and if such interest period extends over three months, at the end of each three-month interval during such interest period.

The Third Amended Credit Agreement is collateralized by substantially all our assets. The Third Amended Credit Agreement contains affirmative and negative covenants, representations and warranties, events of default and other terms customary for loans of this nature. In particular, the Third Amended Credit Agreement requires that we maintain certain financial covenants, as follows:

| | **Covenant Requirement** |
|---|---|
| Consolidated Total Net Leverage Ratio [(1)] | 4.0 to 1.0 |
| Consolidated Interest Coverage Ratio [(2)] | 3.0 to 1.0 |
| Facility Capital Expenditures [(3)] | $50,000,000 |

(1) Maximum Consolidated Net Total Leverage Ratio (as defined in the Third Amended Credit Agreement) as of any fiscal quarter end.

(2) Minimum ratio of Consolidated EBITDA (as defined in the Third Amended Credit Agreement and adjusted for certain expenditures) to Consolidated interest expense (as defined in the Third Amended Credit Agreement) for any period of four consecutive fiscal quarters.

(3) Maximum level of the aggregate amount of all Facility Capital Expenditures (as defined in the Third Amended Credit Agreement) in any fiscal year.

*Acquisition*

On August 1, 2019, we entered into a share purchase agreement to acquire Fibrovein Holdings Limited, which is the owner of 100% of the capital stock of STD Pharmaceutical Products Limited, a UK-based company engaged in the manufacture, distribution and sale of pharmaceutical sclerotherapy products. The total purchase price was approximately £11.2 million. As of the date of this report, we are currently evaluating the accounting treatment of this acquisition.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

**Disclosure Regarding Forward-Looking Statements**

This report includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements in this report, other than statements of historical fact, are "forward-looking statements" for purposes of these provisions, including, without limitation, any projections of earnings, revenues or other financial items, any statements of the plans and objectives of our management for future operations, any statements concerning proposed new products or services, any statements regarding the integration, development or commercialization of the business or any assets acquired from other parties, any statements regarding future economic conditions or performance, and any statements of assumptions underlying any of the foregoing. All forward-looking statements included in this report are made as of the date hereof and are based on information available to us as of such date. We assume no obligation to update any forward-looking statement. In some cases, forward-looking statements can be identified by the use of terminology such as "may," "will," "expects," "plans," "anticipates," "intends," "seeks," "believes," "estimates," "potential," "forecasts," "continue," or other forms of these words or similar words or expressions, or the negative thereof or other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements contained herein are reasonable, there can be no assurance that such expectations or any of the forward-looking statements will prove to be correct. Actual results will likely differ, and could differ materially, from those projected or assumed in the forward-looking statements. Prospective investors are cautioned not to unduly rely on any such forward-looking statements.

Our future financial condition and results of operations, as well as any forward-looking statements, are subject to inherent risks and uncertainties, including the following:

- risks relating to managing growth, particularly if accomplished through acquisitions and the integration of acquired businesses;
- risks relating to protecting our intellectual property;
- claims by third parties that we infringe their intellectual property rights, which could cause us to incur significant legal or licensing expenses and prevent us from selling our products;
- greater scrutiny and regulation by governmental authorities, including risks relating to the subpoena we received in October 2016 from the U.S. Department of Justice seeking information on our marketing and promotional practices;
- risks relating to physicians' use of our products in unapproved circumstances;
- FDA regulatory clearance processes and any failure to obtain and maintain required regulatory clearances and approvals;
- international regulatory clearance processes and any failure to obtain and maintain required regulatory clearances and approvals;
- disruption of our security of information technology systems to operate our business, our critical information systems or a breach in the security of our systems;
- the effect of evolving U.S. and international laws and regulations regarding privacy and data protection;
- the pending exit of the United Kingdom from the European Union and uncertainties about when, how or if such exit will occur;
- risks relating to significant adverse changes in, or our failure to comply with, governing regulations;
- restrictions and limitations in our debt agreements and instruments, which could affect our ability to operate our business and our liquidity;
- uncertainties relating to the LIBOR calculation method and the potential phasing out of LIBOR after 2021;
- expending significant resources for research, development, testing and regulatory approval or clearance of our products under development and any failure to develop the products, any failure of the products to be effective or any failure to obtain approvals for commercial use;
- violations of laws targeting fraud and abuse in the healthcare industry;

- risks relating to healthcare reform legislation negatively affecting our financial results, business, operations or financial condition;
- loss of key personnel;
- termination or interruption of, or a failure to monitor, our supply relationships or increases in the price of our component parts, finished products, third-party services or raw materials, particularly petroleum-based products;
- product liability claims;
- failure to report adverse medical events to the FDA or other governmental authorities, which may subject us to sanctions that may materially harm our business;
- failure to maintain or establish sales capabilities on our own or through third parties, which may result in our inability to commercialize any of our products in countries where we lack direct sales and marketing capabilities;
- employees, independent contractors, consultants, manufacturers and distributors engaging in misconduct or other improper activities, including noncompliance;
- the addressable market for our product groups being smaller than our estimates;
- consolidation in the healthcare industry, group purchasing organizations or public procurement policies leading to demands for price concessions;
- our inability to compete in markets, particularly if there is a significant change in relevant practices or technology;
- fluctuations in foreign currency exchange rates negatively impacting our financial results;
- inability to accurately forecast customer demand for our products or manage our inventory;
- international and national economic and industry conditions constantly changing;
- changes in general economic conditions, geopolitical conditions, U.S. trade policies and other factors beyond our control;
- failure to comply with export control laws, customs laws, sanctions laws and other laws governing our operations in the U.S. and other countries, which could subject us to civil or criminal penalties, other remedial measures and legal expenses;
- inability to generate sufficient cash flow to fund our debt obligations, capital expenditures, and ongoing operations;
- risks relating to our revenues being derived from a few products and medical procedures;
- risks relating to work stoppage, transportation interruptions, severe weather and natural disasters;
- fluctuations in our effective tax rate adversely affecting our business, financial condition or results of operations;
- limits on reimbursement imposed by governmental and other programs;
- failure to comply with applicable environmental laws and regulations;
- volatility of the market price of our common stock and potential dilution from future equity offerings; and
- other factors referenced in our press releases and in our reports filed with the Securities and Exchange Commission (the “SEC”).

All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. Our actual results will likely differ, and may differ materially, from anticipated results. Financial estimates are subject to change and are not intended to be relied upon as predictions of future operating results, and we assume no obligation to update or disclose revisions to those estimates. If we do update or correct one or more forward-looking statements, investors

and others should not conclude that we will make additional updates or corrections. Additional factors that may have a direct bearing on our operating results are discussed in Part I, Item 1A "Risk Factors" in the 2018 Form 10-K.

**Disclosure Regarding Trademarks**

This report includes trademarks, tradenames and service marks that are our property or the property of other third parties. Solely for convenience, such trademarks and tradenames sometimes appear without any "™" or "®" symbol. However, failure to include such symbols is not intended to suggest, in any way, that we will not assert our rights or the rights of any applicable licensor, to these trademarks and tradenames.

## OVERVIEW

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and related condensed notes thereto, which are included in Part I of this report.

We design, develop, manufacture and market single-use medical products for interventional and diagnostic procedures. For financial reporting purposes, we report our operations in two operating segments: cardiovascular and endoscopy. Our cardiovascular segment consists of cardiology and radiology devices, which assist in diagnosing and treating coronary arterial disease, peripheral vascular disease and other non-vascular diseases and includes embolotherapeutic, cardiac rhythm management, electrophysiology, critical care and interventional oncology and spine devices, as well as our Cianna Medical product line. Our endoscopy segment focuses on the gastroenterology, pulmonary and thoracic surgery specialties, with a portfolio consisting primarily of stents, dilation balloons, certain inflation devices, guidewires, and other disposable products. Within those two operating segments, we offer products focused in six core product groups: peripheral intervention, cardiac intervention, interventional oncology and spine, cardiovascular and critical care, breast cancer localization and guidance, and endoscopy.

For the three-month period ended June 30, 2019, we reported sales of approximately $255.5 million, up approximately $30.7 million or 13.7%, over sales from the three-month period ended June 30, 2018 of approximately $224.8 million. For the six-month period ended June 30, 2019, we reported sales of approximately $493.9 million, up approximately $66.0 million or 15.4%, over sales from the six-month period ended June 30, 2018 of approximately $427.8 million.

Gross profit as a percentage of sales decreased to 43.8% for the three-month period ended June 30, 2019 as compared to 44.5% for the three-month period ended June 30, 2018. Gross profit as a percentage of sales decreased to 43.9% for the six-month period ended June 30, 2019 as compared to 44.0% for the six-month period ended June 30, 2018.

Net income for the three-month period ended June 30, 2019 was approximately $6.9 million, or $0.12 per share, as compared to $10.9 million, or $0.21 per share, for the three-month period ended June 30, 2018. Net income for the six-month period ended June 30, 2019 was approximately $13.1 million, or $0.23 per share, as compared to $16.2 million, or $0.31 per share, for the six-month period ended June 30, 2018.

### *Recent Developments and Trends*

In addition to the trends identified in the 2018 Form 10-K under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations - Overview," we believe that our business in 2019 will be impacted by the following recent events and trends:

- We have recently entered into a new agreement with a group purchasing organization (GPO) and obtained other business opportunities, which we currently believe will contribute to future sales growth. Although we anticipate a large portion of these sales will be of our legacy fluid management products, which are generally sold at lower margins, we believe these sales will contribute to future increased operating margin and are consistent with our long-term strategy of seeking to meet the demands of our customers.

- During the three months ended June 30, 2019, our embolic products experienced 10% growth over the comparable period in 2018, which we believe was at least partially due to the proposed divestiture from a strategic competitor. We believe this represents an opportunity for future sales growth for our embolics product line, which we expect will be further enhanced by anticipated future growth of our new EmboCube™ product, as well as future sales of the Torpedo™ embolic products, which recently gained regulatory approval from the FDA.

- Our transition of the manufacturing activities associated with the products we acquired from BD in February 2018 to our facility in Tijuana, Mexico is currently on schedule to be completed by the end of 2019.

- On August 1, 2019, we entered into a share purchase agreement to acquire Fibrovein Holdings Limited, which is the owner of 100% of the capital stock of STD Pharmaceutical Products Limited, a UK-based company engaged in the manufacture, distribution and sale of pharmaceutical sclerotherapy products. The total purchase price was approximately £11.2 million. As of the date of this report, we are currently evaluating the accounting treatment of this acquisition.

- On July 31, 2019, we entered into a Third Amended Credit Agreement. A summary of the terms of the Third Amended Credit Agreement is presented in Note 16 to our condensed consolidated financial statements included in Part I, Item I of this report.

***Results of Operations***

The following table sets forth certain operational data as a percentage of sales for the three and six-month periods ended June 30, 2019 and 2018, as indicated:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Net sales | 100% | 100% | 100% | 100% |
| Gross profit | 43.8 | 44.5 | 43.9 | 44.0 |
| Selling, general and administrative expenses | 31.3 | 30.7 | 32.0 | 31.3 |
| Research and development expenses | 6.4 | 6.8 | 6.6 | 6.9 |
| Intangible asset impairment charges | 0.2 | — | 0.1 | — |
| Contingent consideration expense | 0.9 | 0.1 | 0.6 | 0.1 |
| Acquired in-process research and development expenses | 0.2 | 0.1 | 0.1 | 0.1 |
| Income from operations | 4.8 | 6.7 | 4.4 | 5.6 |
| Other expense - net | (1.3) | (1.6) | (1.2) | (1.4) |
| Income before income taxes | 3.5 | 5.1 | 3.2 | 4.2 |
| Net income | 2.7 | 4.9 | 2.6 | 3.8 |

**Sales**

Sales for the three-month period ended June 30, 2019 increased by 13.7%, or approximately $30.7 million, compared to the corresponding period in 2018. Sales for the six-month period ended June 30, 2019 increased by 15.4%, or approximately $66.0 million, compared to the corresponding period in 2018. Listed below are the sales by product category within each of our two financial reporting segments for the three and six-month periods ended June 30, 2019 and 2018 (in thousands, other than percentage changes):

| | | Three Months Ended June 30, | | | Six Months Ended June 30, | |
|---|---|---|---|---|---|---|
| | % Change | 2019 | 2018 | % Change | 2019 | 2018 |
| **Cardiovascular** | | | | | | |
| Stand-alone devices | 11.9% | $ 103,522 | $ 92,496 | 13.2% | $ 198,948 | $ 175,742 |
| Cianna Medical | n/a | 11,237 | — | n/a | 24,085 | — |
| Custom kits and procedure trays | 1.0% | 34,343 | 33,992 | —% | 67,286 | 67,264 |
| Inflation devices | —% | 24,315 | 24,305 | (0.8)% | 46,333 | 46,724 |
| Catheters | 15.2% | 45,344 | 39,374 | 20.7% | 88,383 | 73,239 |
| Embolization devices | 10.1% | 14,008 | 12,724 | 2.1% | 25,835 | 25,310 |
| CRM/EP | 3.0% | 13,897 | 13,496 | 9.7% | 26,276 | 23,962 |
| Total | 14.0% | 246,666 | 216,387 | 15.7% | 477,146 | 412,241 |
| | | | | | | |
| **Endoscopy** | | | | | | |
| Endoscopy devices | 5.3% | 8,866 | 8,423 | 7.3% | 16,735 | 15,603 |
| | | | | | | |
| Total | 13.7% | $ 255,532 | $ 224,810 | 15.4% | $ 493,881 | $ 427,844 |

*Cardiovascular Sales.* Our cardiovascular sales for the three-month period ended June 30, 2019 were approximately $246.7 million, up 14.0% when compared to the corresponding period for 2018 of approximately $216.4 million. Sales for the three-month period ended June 30, 2019 were favorably affected by increased sales of (a) our stand-alone devices (particularly our MAP™ Merit Angioplasty Packs, Merit Laureate® Hydrophilic Guide Wires, CorVocet® Biopsy device, DualCap® products, and wires, as well as sales from products we acquired from Vascular Insights) of approximately $11.0 million, up 11.9% from the corresponding period for 2018; (b) Cianna Medical products of approximately $11.2 million; and (c) catheters (particularly our ReSolve® Locking Drainage Catheters, Prelude IDeal™ product line, and our Merit Maestro® Microcatheters) of approximately $6.0 million, up 15.2% from the corresponding period for 2018.

Our cardiovascular sales for the six-month period ended June 30, 2019 were approximately $477.1 million, up 15.7%, when compared to the corresponding period for 2018 of approximately $412.2 million. Sales for the six-month period ended June 30, 2019 were favorably affected by increased sales of (a) our stand-alone devices (particularly our MAP™ Merit Angioplasty Packs, Merit Laureate® Hydrophilic Guide Wires, DualCap® products, and wires, as well as sales from products acquired in connection with our acquisitions, including the divested BD product lines and ClariVein devices we acquired from Vascular Insights) of approximately $23.2 million, up 13.2% from the corresponding period for 2018; (b) Cianna Medical products of approximately $24.1 million; and (c) catheters (particularly our ReSolve® Locking Drainage Catheters, Prelude® and Prelude® Radial Sheath product lines, and our Merit Maestro® Microcatheters) of approximately $15.1 million, up 20.7% from the corresponding period for 2018.

*Endoscopy Sales.* Our endoscopy sales for the three-month period ended June 30, 2019 were approximately $8.9 million, up 5.3%, when compared to sales in the corresponding period of 2018 of approximately $8.4 million. Our endoscopy sales for the six-month period ended June 30, 2019 were approximately $16.7 million, up 7.3%, when compared to sales in the corresponding period of 2018 of approximately $15.6 million. In each case, this increase was primarily related to an increase in sales of our EndoMAXX® Fully Covered Esophageal Stent and our Elation® Balloon Dilator.

*International Sales*. International sales for the three-month period ended June 30, 2019 were approximately $110.9 million, or 43.4% of net sales, up 10.5% when compared to the corresponding period in 2018. The increase in our international sales for the second quarter of 2019 compared to the second quarter of 2018 was primarily related to (a) sales increases in China of approximately $5.9 million, or 23.1% when compared to the corresponding period in 2018 and (b) sales increases with distributors in the middle east of approximately $2.3 million when compared to the corresponding period in 2018.

International sales for the six-month period ended June 30, 2019 were approximately $211.2 million, or 42.8% of net sales, up 9.2% when compared to the six-month period ended June 30, 2018. The increase in our international sales was primarily related to (a) sales increases in China of approximately $8.6 million, or 17.4% when compared to the corresponding period in 2018 and (b) sales increases with distributors in the middle east of approximately $2.8 million when compared to the corresponding period in 2018.

**Gross Profit**

Our gross profit as a percentage of sales decreased to 43.8% for the three-month period ended June 30, 2019, compared to 44.5% for the three-month period ended June 30, 2018. This decrease was primarily due to increased amortization as a result of acquisitions. Gross profit as a percentage of sales decreased to 43.9% for the six-month period ended June 30, 2019, compared to 44.0% for the six-month period ended June 30, 2018. This decrease was primarily due to increased amortization as a result of acquisitions. Amortization expense associated with our acquisitions is discussed in greater detail in Note 5 to our condensed consolidated financial statements included in Part I, Item 1 of this report.

**Operating Expenses**

*Selling, General and Administrative Expense.* Selling, general and administrative ("SG&A") expenses increased approximately $10.9 million, or 15.7%, for the three-month period ended June 30, 2019 compared to the three-month period ended June 30, 2018. As a percentage of sales, SG&A expenses were 31.3% of sales for the three-month period ended June 30, 2019, compared to 30.7% the three-month period ended June 30, 2018. SG&A expenses increased approximately $24.2 million, or 18.1%, for the six-month period ended June 30, 2019 compared to the six-month period ended June 30, 2018. As a percentage of sales, SG&A expenses increased to 32.0% of sales for the six-month period ended June 30, 2019, compared to 31.3% of sales for the six-month period ended June 30, 2018. The increase in SG&A expense was primarily related to increased headcount and increased amortization as a result of acquisitions.

*Research and Development Expenses.* Research and development ("R&D") expenses for the three-month period ended June 30, 2019 were approximately $16.3 million, up 6.6%, when compared to R&D expenses in the corresponding period of 2018 of approximately $15.3 million. R&D expenses for the six-month period ended June 30, 2019 were approximately $32.4 million, up 9.2%, when compared to R&D expenses in the corresponding period of 2018 of approximately $29.6 million. This increase in R&D expenses was largely due to hiring additional research and development personnel to support various new core and acquired product developments.

**Operating Income**

The following table sets forth our operating income by financial reporting segment for the three and six-month periods ended June 30, 2019 and 2018 (in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| **Operating Income** | | | | |
| Cardiovascular | $ 9,855 | $ 12,663 | $ 17,474 | $ 19,060 |
| Endoscopy | 2,346 | 2,451 | 4,250 | 4,835 |
| Total operating income | $ 12,201 | $ 15,114 | $ 21,724 | $ 23,895 |

Cardiovascular Operating Income. Our cardiovascular operating income for the three-month period ended June 30, 2019 was approximately $9.9 million, compared to operating income of approximately $12.7 million for the three-month period ended June 30, 2018. Our cardiovascular operating income for the six-month period ended June 30, 2019 was approximately $17.5 million, compared to operating income of approximately $19.1 million for the six-month period ended June 30, 2018. The decrease in cardiovascular operating income was primarily as result of higher contingent consideration expense from fair value adjustments related to liabilities from recent acquisitions, increased amortization as a result of acquisitions and lower gross margins, partially offset by higher sales and lower R&D expenses as a percentage of sales.

Endoscopy Operating Income. Our endoscopy operating income for the three-month period ended June 30, 2019 was approximately $2.3 million, compared to approximately $2.5 million for the three-month period ended June 30, 2018. Our endoscopy operating income for the six-month period ended June 30, 2019 was approximately $4.3 million, compared to approximately $4.8 million for the six-month period ended June 30, 2018. This decrease was primarily the result of lower gross margins and higher operating expenses as a percentage of sales.

**Effective Tax Rate**

Our effective income tax rate for the three-month periods ended June 30, 2019 and 2018 was 23.8% and 5.4%, respectively. Our effective income tax rate for the six-month periods ended June 30, 2019 and 2018 was 17.6% and 9.6%, respectively. The increase in the effective tax rate for both periods, when compared to the prior-year periods, is primarily due to a lower discrete tax benefit for share-based payment awards in the current year and a discrete tax expense for the fair value adjustment of the contingent liability related to the Cianna Medical acquisition.

**Other Income (Expense)**

Our other income (expense) for the three-month periods ended June 30, 2019 and 2018 was approximately $(3.2) million and $(3.5) million, respectively. The decrease in other expense was primarily a result of decreased interest expense and foreign currency losses.

Our other income (expense) for the six-month periods ended June 30, 2019 and 2018 was approximately $(5.9) million, and $(6.0) million, respectively. The decrease in other expense for this period was primarily a result of increased interest income related to our note receivable from NinePoint Medical, Inc. ("NinePoint Medical").

**Net Income**

Our net income for the three-month periods ended June 30, 2019 and 2018 was approximately $6.9 million and $10.9 million, respectively. Our net income for six-month periods ended June 30, 2019 and 2018 was approximately $13.1 million and $16.2 million, respectively. The decrease in net income for both periods was primarily due to lower gross margins, higher contingent consideration expense from fair value adjustments related to liabilities from recent acquisitions, higher SG&A expenses as a percentage of sales and a higher effective tax rate, partially offset by increased sales and lower R&D expenses as a percentage of sales.

## LIQUIDITY AND CAPITAL RESOURCES

### Capital Commitments, Contractual Obligations and Cash Flows

At June 30, 2019 and December 31, 2018, we had cash and cash equivalents of approximately $35.2 million and $67.4 million respectively, of which approximately $26.4 million and $57.3 million, respectively, were held by foreign subsidiaries. For each of our foreign subsidiaries, we make an evaluation as to whether the earnings are intended to be repatriated to the United States or held by the foreign subsidiary for permanent reinvestment. We are not permanently reinvested with respect to our historic unremitted foreign earnings; a deferred tax liability has been accrued for the earnings that are available to be repatriated to the United States.

In addition, cash held by our subsidiary in China is subject to local laws and regulations that require government approval for the transfer of such funds to entities located outside of China. As of June 30, 2019, and December 31, 2018, we had cash and cash equivalents of approximately $11.1 million and $18.6 million, respectively, within our subsidiary in China.

*Cash flows provided by operating activities.* Cash provided by operating activities during the six-month periods ended June 30, 2019 and 2018 was primarily the result of net income excluding non-cash items, offset by changes in working capital. Our working capital as of June 30, 2019 and December 31, 2018 was approximately $250.4 million and $254.5 million, respectively. The decrease in working capital as of June 30, 2019 compared to December 31, 2018 was primarily the result of the recording of current operating lease liabilities as a result of the adoption of ASC 842 and a decrease in cash, partially offset by an increase in trade receivables and a decrease in the current portion of our long-term debt from payment of the collateralized debt facility. As of June 30, 2019, and December 31, 2018, we had a current ratio of 2.42 to 1 and 2.45 to 1, respectively.

During the six-month period ended June 30, 2019, our inventory balance increased approximately $5.5 million, from approximately $197.5 million as of December 31, 2018 to approximately $203.0 million as of June 30, 2019. The increase in the inventory balance was primarily due to increased inventory levels associated with increased sales and the initial placement of inventory in our new warehouse and distribution facility in Reading, United Kingdom. The trailing twelve-month inventory turns as of June 30, 2019 was 2.77, compared to 2.80 for the twelve-month period ended December 31, 2018.

*Cash flows provided by financing activities.* Cash provided by financing activities for the six-month period ended June 30, 2019 was approximately $7.8 million compared to cash provided by financing activities of approximately $138.1 million for the six-month period ended June 30, 2018, a decrease of approximately $130.4 million. The decrease was primarily the result of additional borrowings in 2018 to fund the acquisition of certain assets from BD, NinePoint Medical and DirectACCESS.

The Second Amended Credit Agreement provides for a term loan of $150 million and a revolving credit commitment up to an aggregate amount of $375 million, which includes a reserve of $25 million to make swingline loans from time to time. The term loan is payable in quarterly installments in the amounts provided in the Second Amended Credit Agreement until the maturity date of July 6, 2021, at which time the term and revolving credit loans, together with accrued interest thereon, will be due and payable. At any time prior to the maturity date, we may repay any amounts owing under all revolving credit loans, term loans, and all swingline loans in whole or in part, subject to certain minimum thresholds, without premium or penalty, other than breakage costs.

Revolving credit loans denominated in dollars and term loans made under the Second Amended Credit Agreement bear interest, at our election, at either a Base Rate or Eurocurrency Base Rate (as such terms are defined in the Second Amended Credit Agreement) plus the applicable margin, which increases as our Consolidated Total Leverage Ratio (as defined in the Second Amended Credit Agreement) increases. Revolving credit loans denominated in an Alternative Currency (as defined in the Second Amended Credit Agreement) bear interest at the Eurocurrency rate plus the applicable margin. Swingline loans bear interest at the Base Rate plus the applicable margin. Upon an event of default, the interest rate may be increased by 2.0%. The revolving credit commitment will also carry a commitment fee of 0.15% to 0.40% per annum on the unused portion.

The Second Amended Credit Agreement is collateralized by substantially all our assets. The Second Amended Credit Agreement contains covenants, representations and warranties and other terms customary for loans of this nature. The Second Amended Credit Agreement requires that we maintain certain financial covenants, as follows:

| | Covenant Requirement |
|---|---|
| Consolidated Total Leverage Ratio [1] | |
| January 1, 2018 and thereafter | 3.5 to 1.0 |
| Consolidated EBITDA [2] | 1.25 to 1.0 |
| Consolidated Net Income [3] | $0 |
| Facility Capital Expenditures [4] | $30 million |

(1) Maximum Consolidated Total Leverage Ratio (as defined in the Second Amended Credit Agreement) as of any fiscal quarter end.

(2) Minimum ratio of Consolidated EBITDA (as defined in the Second Amended Credit Agreement and adjusted for certain expenditures) to Consolidated Fixed Charges (as defined in the Second Amended Credit Agreement) for any period of four consecutive fiscal quarters.

(3) Minimum level of Consolidated Net Income (as defined in the Second Amended Credit Agreement) for certain periods, and subject to certain adjustments.

(4) Maximum level of the aggregate amount of all Facility Capital Expenditures (as defined in the Second Amended Credit Agreement) in any fiscal year.

Additionally, the Second Amended Credit Agreement contains customary events of default and affirmative and negative covenants for transactions of this type. As of June 30, 2019, we believe we were in compliance with all covenants set forth in the Second Amended Credit Agreement.

As of June 30, 2019, we had outstanding borrowings of approximately $400.5 million under the Second Amended Credit Agreement (a net increase in long-term debt of approximately $12.1 million from December 31, 2018 due to additional borrowings to finance the acquisition of Brightwater, which was partially offset by payments), with additional available borrowings of approximately $38.7 million, based on the leverage ratio required pursuant to the Second Amended Credit Agreement. Our interest rate as of June 30, 2019 was a fixed rate of 2.37% on $175 million as a result of an interest rate swap (see Note 11 to our condensed consolidated financial statements included in Part I, Item 1 of this report) and a variable floating rate of 3.65% on $225.5 million. Our interest rate as of December 31, 2018 was a fixed rate of 2.12% on $175 million as a result of an interest rate swap and a variable floating rate of 3.52% on $213.5 million.

*Cash flows used in investing activities.* Our cash flows used in investing activities for the six-month period ended June 30, 2019 was approximately $74.8 million compared to approximately $162.5 million for the six-month period ended June 30, 2018, a decrease of approximately $87.7 million. This decrease was primarily a result of a decrease of approximately $81.4 million in net cash paid for acquisitions during the six months ended June 30, 2019, compared to the six months ended June 30, 2018 (see Note 5 to our condensed consolidated financial statements included in Part I, Item 1 of this report), partially offset by a $4.4 million increase in capital expenditures for property and equipment. Capital expenditures for property and equipment were approximately $36.0 million and $31.6 million for the six-month periods ended June 30, 2019 and 2018, respectively.

We currently believe that our existing cash balances, anticipated future cash flows from operations and borrowings under the Second Amended Credit Agreement will be adequate to fund our current and currently planned future operations for the next twelve months and the foreseeable future. In the event we pursue and complete significant transactions or acquisitions in the future, additional funds will likely be required to meet our strategic needs, which may require us to raise additional funds in the debt or equity markets.

**Off-Balance Sheet Arrangements**

Under SEC regulations, we are required to disclose our off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, such as changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors. As of June 30, 2019, we had no off-balance sheet arrangements.

***Critical Accounting Policies and Estimates***

The SEC has requested that all registrants address their most critical accounting policies. The SEC has indicated that a “critical accounting policy” is one which is both important to the representation of the registrant’s financial condition and results and requires management’s most difficult, subjective or complex judgments, often as a result of the need to make estimates about the

effect of matters that are inherently uncertain. We base our estimates on past experience and on various other assumptions our management believes to be reasonable under the circumstances, the results of which form the basis for making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results will differ, and may differ materially from these estimates under different assumptions or conditions. Additionally, changes in accounting estimates could occur in the future from period to period. The following paragraphs identify our most critical accounting policies:

**Inventory Obsolescence.** Our management reviews on a quarterly basis inventory quantities on hand for unmarketable and/or slow-moving products that may expire prior to being sold. This review includes quantities on hand for both raw materials and finished goods. Based on this review, we provide adjustments for any slow-moving finished good products or raw materials that we believe will expire prior to being sold or used to produce a finished good and any products that are unmarketable. This review of inventory quantities for unmarketable and/or slow-moving products is based on forecasted product demand prior to expiration lives.

Forecasted unit demand is derived from our historical experience of product sales and production raw material usage. If market conditions become less favorable than those projected by our management, additional inventory write-downs may be required. During the years ended December 31, 2018, 2017 and 2016, we recorded obsolescence expense of approximately $8.2 million, $6.1 million and $3.9 million, respectively, and wrote off approximately $7.9 million, $2.9 million and $2.8 million, respectively. Based on this historical trend, we believe that our inventory balances as of June 30, 2019 have been accurately adjusted for any unmarketable and/or slow-moving products that may expire prior to being sold.

**Allowance for Doubtful Accounts.** A majority of our receivables are with hospitals which, over our history, have demonstrated favorable collection rates. Therefore, we have experienced relatively minimal bad debts from hospital customers. In limited circumstances, we have written off bad debts as the result of the termination of our business relationships with foreign distributors. The most significant write-offs over our history have come from U.S. and international distributors, as well as from U.S. custom procedure tray manufacturers who bundle our products in surgical trays.

We maintain allowances for doubtful accounts relating to estimated losses resulting from the inability of our customers to make required payments. These allowances are based upon historical experience and a review of individual customer balances. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

**Stock-Based Compensation.** We measure stock-based compensation cost at the grant date based on the value of the award and recognize the cost as an expense over the term of the vesting period. Judgment is required in estimating the fair value of stock-based awards granted and their expected forfeiture rate. If actual results differ significantly from these estimates, stock-based compensation expense and our results of operations could be materially impacted.

**Income Taxes.** Under our accounting policies, we initially recognize a tax position in our financial statements when it becomes more likely than not that the position will be sustained upon examination by the tax authorities. Such tax positions are initially and subsequently measured as the largest aggregate amount of tax positions that have a greater than 50% likelihood of being realized upon ultimate settlement with the tax authorities assuming full knowledge of the position and all relevant facts. Although we believe our provisions for unrecognized tax positions are reasonable, we can make no assurance that the final tax outcome of these matters will not be different from that which we have reflected in our income tax provisions and accruals. The tax law is subject to varied interpretations, and we have taken positions related to certain matters where the law is subject to interpretation. Such differences could have a material impact on our income tax provisions and operating results in the period(s) in which we make such determination.

**Goodwill and Intangible Asset Impairment and Contingent Consideration.** We allocate any excess purchase price over the fair value of the net tangible and identifiable intangible assets acquired in a business combination to goodwill. We test our goodwill balances for impairment as of July 1 of each year, or whenever impairment indicators arise. We utilize several reporting units in evaluating goodwill for impairment. We assess the estimated fair value of reporting units using a combination of a guideline public company market-based approach and a discounted cash flow income-based approach. If the carrying amount of a reporting unit exceeds the fair value of the reporting unit, an impairment charge is recognized in an amount equal to the excess of the carrying amount of the reporting unit goodwill over the implied fair value of that goodwill. This analysis requires significant judgment, including estimation of future cash flows and the length of time they will occur, which is based on internal forecasts, and a determination of a discount rate based on our weighted average cost of capital. During our annual test of goodwill balances in 2018, which was completed during the third quarter of 2018, we determined that the fair value of each reporting unit with goodwill exceeded the carrying amount by a significant amount.

We evaluate the recoverability of intangible assets subject to amortization whenever events or changes in circumstances indicate that an asset's carrying amount may not be recoverable. This analysis requires similar significant judgments as those discussed above regarding goodwill, except that undiscounted cash flows are compared to the carrying amount of intangible assets to determine if impairment exists. In-process technology intangible assets, which are not subject to amortization until projects reach commercialization, are assessed for impairment at least annually and more frequently if events occur that would indicate a potential reduction in the fair value of the assets below their carrying value.

During the year ended December 31, 2018, we compared the carrying value of the amortizing intangible assets acquired in our July 2015 acquisition of certain assets from Quellent, LLC ("Quellent"), all of which pertained to our cardiovascular segment, to the undiscounted cash flows expected to result from the asset group and determined that the carrying amount was not recoverable. We then determined the fair value of the amortizing assets related to the Quellent acquisition based on estimated future cash flows discounted back to their present value using a discount rate that reflects the risk profiles of the underlying activities. Some of the factors that influenced our estimated cash flows were slower than anticipated sales growth in the products acquired from our Quellent acquisition and uncertainty about future sales growth. The excess of the carrying value compared to the fair value was recognized as an intangible asset impairment charge. We recorded an impairment charge for Quellent of approximately $657,000.

Contingent consideration is an obligation by the buyer to transfer additional assets or equity interests to the former owner upon reaching certain performance targets. Certain of our business combinations involve the potential for the payment of future contingent consideration, generally based on a percentage of future product sales or upon attaining specified future revenue or other milestones. In connection with a business combination, any contingent consideration is recorded on the acquisition date based upon the consideration expected to be transferred in the future. We utilize a discounted cash flow method, which includes a probability factor for milestone payments, in valuing the contingent consideration liability. We re-measure the estimated liability each quarter and record changes in the estimated fair value through operating expense in our consolidated statements of income. Significant increases or decreases in our estimates could result in changes to the estimated fair value of our contingent consideration liability, as the result of changes in the timing and amount of revenue estimates, as well as changes in the discount rate or periods.

**Item 3. QUANTITATIVE AND QUALITATIVE DICSLOSURES ABOUT MARKET RISK**

**Currency Risk**

Our principal market risk relates to changes in the value of the following currencies relative to the U.S. Dollar (USD):

- Euro (EUR)
- Chinese Yuan Renminbi (CNY), and
- British Pound (GBP).

We also have more limited market risk relating to the following currencies (among others):

- Hong Kong Dollar (HKD),
- Mexican Peso (MXN),
- Australian Dollar (AUD),
- Canadian Dollar (CAD),
- Brazilian Real (BRL),
- Swiss Franc (CHF),
- Swedish Krona (SEK),
- Danish Krone (DKK),
- Singapore Dollars (SGD),
- South Korean Won (KRW), and
- Japanese Yen (JPY).

Our consolidated financial statements are denominated in, and our principal currency is, the U.S. Dollar. For the six-month period ended June 30, 2019, a portion of our net sales (approximately $160.8 million, representing approximately 32.6% of our aggregate net sales), was attributable to sales that were denominated in foreign currencies. All other international sales were denominated in U.S. Dollars.

Our Euro-denominated revenue represents one of our largest single currency risks. However, our Euro-denominated expenses associated with our European operations (manufacturing sites, a distribution facility and sales representatives) provide a natural hedge. Accordingly, changes in the Euro, and in particular a strengthening of the U.S. Dollar against the Euro, generally have a positive effect on our operating income. As we continue to expand our operations in China, we have been increasingly exposed to currency risk related to our CNY-denominated revenue. In general, a strengthening of the U.S. Dollar against CNY has a negative effect on our operating income. The following table presents the USD impact to reported operating income related to a hypothetical positive and negative 10% exchange rate fluctuation in the value of the U.S. Dollar relative to both the EUR and CNY (annual amounts):

| *(in thousands)* | **USD Relative to Other Currency** | |
|---|---|---|
| | **10% Strengthening** | **10% Weakening** |
| Impact to Operating Income: | | |
| EUR | $ 5,300 | $ (5,300) |
| CNY | $ (8,000) | $ 8,000 |

During the three and six months ended June 30, 2019, exchange rate fluctuations of foreign currencies against the U.S. Dollar had the following impact on sales, cost of sales and gross profit (in thousands, except basis points):

| | **Three Months Ended June 30, 2019** | | **Six Months Ended June 30, 2019** | |
|---|---|---|---|---|
| | Currency Impact to Reported Amounts | | Currency Impact to Reported Amounts | |
| | Increase/(Decrease) | Percent Increase/(Decrease) | Increase/(Decrease) | Percent Increase/(Decrease) |
| Net Sales | $ (4,671) | (1.8)% | $ (9,460) | (1.9)% |
| Cost of Sales | $ (1,867) | (1.3)% | $ (2,906) | (1.0)% |
| Gross Profit [1] | $ (2,804) | (2.4)% | $ (6,554) | (2.9)% |

[1] Represents approximately 29 basis points decrease and 48 basis points increase in gross margin percentage for the three and six months ended June 30, 2019, respectively

The impact to sales for the three and six months ended June 30, 2019 was primarily a result of unfavorable impacts due to sales denominated in EUR, CNY, AUD, BRL and GBP. The impact to cost of sales was primarily a result of favorable impacts from EUR fluctuations related to manufacturing costs from our facilities in Europe denominated in EUR, MXN fluctuations on our

manufacturing costs from our facility in Tijuana, Mexico denominated in MXN, and AUD fluctuations on our manufacturing costs from our facility in Melbourne, Australia.

We forecast our net exposure related to sales and expenses denominated in foreign currencies. As of June 30, 2019, we had entered into foreign currency forward contracts, which qualified as cash flow hedges, with the following notional amounts (in thousands and in local currencies):

| Currency | Symbol | Forward Notional Amount |
|---|---|---|
| Australian Dollar | AUD | 3,430 |
| Brazilian Real | BRL | 1,080 |
| Canadian Dollar | CAD | 4,330 |
| Swiss Franc | CHF | 1,970 |
| Chinese Renminbi | CNY | 166,500 |
| Danish Krone | DKK | 18,175 |
| Euro | EUR | 22,600 |
| British Pound | GBP | 4,820 |
| Japanese Yen | JPY | 1,335,000 |
| Korea Won | KRW | 4,475,000 |
| Mexican Peso | MXN | 296,500 |
| Norwegian Krone | NOK | 6,000 |
| Swedish Krona | SEK | 29,210 |

We also forecast our net exposure in various receivables and payables to fluctuations in the value of various currencies, and we enter into foreign currency forward contracts to mitigate that exposure. As of June 30, 2019, we had entered into the following foreign currency forward contracts (which were not designated as hedging instruments) related to those balance sheet accounts (amounts in thousands and in local currencies):

| Currency | Symbol | Forward Notional Amount |
|---|---|---|
| Australian Dollar | AUD | 13,788 |
| Brazilian Real | BRL | 9,000 |
| Canadian Dollar | CAD | 2,652 |
| Swiss Franc | CHF | 643 |
| Chinese Renminbi | CNY | 85,226 |
| Danish Krone | DKK | 2,544 |
| Euro | EUR | 11,717 |
| British Pound | GBP | 5,653 |
| Hong Kong Dollar | HKD | 11,000 |
| Japanese Yen | JPY | 1,445,574 |
| Korean Won | KRW | 6,000,000 |
| Mexican Peso | MXN | 25,000 |
| Norwegian Krone | NOK | 3,180 |
| Swedish Krona | SEK | 17,154 |
| Singapore Dollar | SGD | 1,676 |
| South African Rand | ZAR | 37,800 |

See Note 11 to our condensed consolidated financial statements included in Part I, Item 1 of this report for a discussion of our foreign currency forward contracts.

**Interest Rate Risk.** As discussed in Note 10 to our condensed consolidated financial statements, as of June 30, 2019, we had outstanding borrowings of approximately $400.5 million under the Second Amended Credit Agreement. Our earnings and after-tax cash flow are affected by changes in interest rates. On August 5, 2016, we entered into a pay-fixed, receive-variable interest rate swap with Wells Fargo, which as of June 30, 2019 had a notional amount of $175 million, to fix the one-month LIBOR rate at 1.12%. The interest rate swap is scheduled to expire on July 6, 2021. This instrument is intended to reduce our exposure to interest rate fluctuations and was not entered into for speculative purposes. Excluding the amount that is subject to a fixed rate under the interest rate swap and assuming the current level of borrowings remained the same, it is estimated that our interest

expense and income before income taxes would change by approximately $2.3 million annually for each one percentage point change in the average interest rate under these borrowings.

In the event of an adverse change in interest rates, our management would likely take actions to mitigate our exposure. However, due to the uncertainty of the actions that would be taken and their possible effects, additional analysis is not possible at this time. Further, such analysis would not consider the effects of the change in the level of overall economic activity that could exist in such an environment.

## Item 4. CONTROLS AND PROCEDURES

### Evaluation of Disclosure Controls and Procedures

Our management is responsible for establishing and maintaining adequate disclosure controls and procedures for our company. Consequently, our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Exchange Act as of June 30, 2019. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs. Based on that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

### Changes in Internal Control Over Financial Reporting

During the quarter ended June 30, 2019, there were no changes in our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934).

## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

See Note 15 “Commitments and Contingencies” set forth in the notes to our condensed consolidated financial statements included in Part I, Item 1 of this report.

### ITEM 1A. RISK FACTORS

In addition to other information set forth in this report, readers should carefully consider the factors discussed in Part I, Item 1A. "Risk Factors" of the 2018 Form 10-K, as well as the amended and updated risk factor included below (which replaces the equivalent risk factor disclosed in Part I, Item 1A. "Risk Factors" of the 2018 Form 10-K). Such risk factors could materially affect our business, financial condition or future results. The risks described in our 2018 Form 10-K are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and/or operating results.

***The agreements and instruments governing our debt contain restrictions and limitations that could significantly affect our ability to operate our business, as well as significantly affect our liquidity***.

We have entered into a Third Amended and Restated Credit Agreement (as amended to date, the "Third Amended Credit Agreement"), with Wells Fargo Bank, National Association as administrative agent, swingline lender and a lender, and Wells Fargo Securities, LLC, BOFA Securities, Inc. and HSBC Bank USA, National Association, as joint lead arrangers and joint bookrunners. In addition, Bank of America, N.A., U.S. Bank, National Association, and HSBC Bank USA, National Association, are parties to the Third Amended Credit Agreement as lenders. The Third Amended Credit Agreement amends and restates in its entirety our previously outstanding Second Amended and Restated Credit Agreement and all amendments thereto. The Third Amended Credit Agreement contains a number of significant covenants that could adversely affect our ability to operate our business, our liquidity or our results of operations. These covenants restrict, among other things, our incurrence of indebtedness, creation of liens or pledges on our assets, mergers or similar combinations or liquidations, asset dispositions, repurchases or redemptions of equity interests or debt, issuances of equity, payment of dividends and certain distributions and entry into related party transactions.

We have pledged substantially all of our assets as collateral for the Third Amended Credit Agreement. Our breach of any covenant in the Third Amended Credit Agreement, not otherwise cured, waived or amended, could result in a default under that agreement and could trigger acceleration of the underlying obligations. Any default under the Third Amended Credit Agreement could adversely affect our ability to service our debt and to fund our planned capital expenditures and ongoing operations. The administrative agent, joint lead arrangers, joint bookrunners and lenders under the Third Amended Credit Agreement have available to them the remedies typically available to lenders and secured parties, including the ability to foreclose on the collateral we have pledged. It could lead to an acceleration of indebtedness and foreclosure on our assets.

As currently amended, the Third Amended Credit Agreement provides for potential borrowings of up to $750 million. Such increased borrowing limits may make it more difficult for us to comply with leverage ratios and other restrictive covenants in the Third Amended Credit Agreement. We may also have less cash available for operations and investments in our business, as we will be required to use additional cash to satisfy the minimum payment obligations associated with this increased indebtedness.

**ITEM 6. EXHIBITS**

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

| Exhibit No. | Description |
|---|---|
| 10.1 | Ninth Amendment to the Second Restatement of the Merit Medical Systems, Inc. 401(K) Plan |
| 10.2 | Tenth Amendment to the Second Restatement of the Merit Medical Systems, Inc. 401(K) Plan |
| 10.3 | Eleventh Amendment to the Second Restatement of the Merit Medical Systems, Inc. 401(K) Plan |
| 10.4 | Twelfth Amendment to the Second Restatement of the Merit Medical Systems, Inc. 401(K) Plan |
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2 | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101 | The following financial information from the quarterly report on Form 10-Q of Merit Medical Systems, Inc. for the quarter ended June 30, 2019, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Statements of Income, (ii) Consolidated Balance Sheets, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Cash Flows, and (v) Condensed Notes to the Consolidated Financial Statements |

**SIGNATURES**

Pursuant to the requirements 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.

MERIT MEDICAL SYSTEMS, INC.

REGISTRANT

Date: August 9, 2019

By: /s/ FRED P. LAMPROPOULOS

Fred P. Lampropoulos, President and
Chief Executive Officer

Date: August 9, 2019

By: /s/ RAUL PARRA

Raul Parra
Chief Financial Officer and Treasurer

**Exhibit 10.1**

**NINTH AMENDMENT**
**TO THE SECOND RESTATEMENT OF THE**
**MERIT MEDICAL SYSTEMS, INC. 401(k) PROFIT SHARING PLAN**

This Ninth Amendment to the Second Restatement of the Merit Medical Systems, Inc. 401(k) Profit Sharing Plan (the "Plan") is hereby amended as follows, effective as of August 1, 2016, except as otherwise provided herein:

Section 14 of the Adoption Agreement entitled "CONDITIONS OF ELIGIBILITY" is amended as follows:

CONDITIONS OF ELIGIBILITY (Plan Section 3.1)

a. [ ] **No age or service required.** No age or service required for all contribution type (skip to Question 15).

b. [X] **Eligibility - same for all contribution types.** An Eligible Employee will be eligible to participate in the Plan for all contribution types upon satisfaction of the following (select one or more of e. - n. below; also select 1. (All Contributions) for each condition selected at e. - m.):

c. [ ] **Eligibility - different conditions apply.** An Eligible Employee will be eligible to participate in the Plan upon satisfaction of the following either for all contribution types or to the designated contribution type (select one or more of d. - n. below; also select 1. OR all that apply of 2. - 4. for each condition selected at d. - m.):

**NOTE:** Unless otherwise specified in this Section, Elective Deferrals include Roth Elective Deferrals, after-tax voluntary Employee contributions, and rollover contributions (unless otherwise selected at Question 46); Matching includes QMACs; and Nonelective Profit Sharing includes QNECs. **"ADP test safe harbor contributions" (SH) (including those made pursuant to a QACA) and SIMPLE 401(k) contributions are subject to the conditions for Elective Deferrals except as provided in Question 27.**

| Eligibility Conditions | All Contributions | | Elective Deferrals/SH | Matching | Nonelective Profit Sharing |
|---|---|---|---|---|---|
| d. No age or service required | N/A | | 2. [ ] | 3. [ ] | 4. [ ] |
| e. Age 20 1/2 | 1. [ ] | **OR** | 2. [ ] | 3. [ ] | 4. [ ] |
| f. Age 21 | 1. [ ] | **OR** | 2. [ ] | 3. [ ] | 4. [ ] |
| g. Age ____ (may not exceed 21) | 1. [ ] | **OR** | 2. [ ] | 3. [ ] | 4. [ ] |
| h. ____ (not to exceed 12) months of service (elapsed time) | 1. [ ] | **OR** | 2. [ ] | 3. [ ] | 4. [ ] |
| i. 1 Year of Service | 1. [ ] | **OR** | 2. [ ] | 3. [ ] | 4. [ ] |
| j. 2 Years of Service | N/A | **OR** | N/A | 3. [ ] | 4. [ ] |

| | | | | | |
|---|---|---|---|---|---|
| k. ____ (not to exceed 12) consecutive month period from the Eligible Employee's employment commencement date and during which at least __ (not to exceed 1,000) Hours of Service are completed. If an Employee does not complete the stated Hours of Service during the specified time period, the Employee is subject to the 1 Year of Service requirement in i. above. | 1. [ ] | **OR** | 2. [ ] | 3. [ ] | 4. [ ] |
| l. ____ (not to exceed 12) consecutive months of employment from the Eligible Employee's employment commencement date. If an Employee does not complete the stated number of months, the Employee is subject to the 1 Year of Service requirement in i. above. | 1. [ ] | **OR** | 2. [ ] | 3. [ ] | 4. [ ] |
| m. Other: 90 days of continuous employment within an eligible class or if earlier 1 Year of Service as defined under the Plan (e.g., date on which 1,000 Hours of Service is completed within the computation period) (must satisfy the Notes below) | 1. [ X] | **OR** | 2. [ ] | 3. [ ] | 4. [ ] |

n. [ ] Other: _____ (e.g., date on which 1,000 Hours of Service is completed within the computation period) (must specify contributions to which conditions apply and satisfy the Notes below)

**NOTE:** If m. or n. is selected, the condition must be an age or service requirement that is definitely determinable and may not exceed age 21 and for Elective Deferrals, 1 Year of Service; for Employer matching and/or Nonelective profit sharing contributions, may not exceed 2 Years of Service. If more than 1 Year of Service is required for Employer matching and/or Nonelective profit sharing contributions, 100% immediate vesting is required.

**NOTE:** If the service requirement is or includes a fractional year, then, except in a manner consistent with k., an Employee will not be required to complete any specified number of Hours of Service to receive credit for such fractional year. If expressed in months of service, then an Employee will not be required to complete any specified number of Hours of Service in a particular month, unless selected in k. above. In both cases, the Plan must use the elapsed time method to determine service, except that the Hours of Service method will be used for the 1 Year of Service override (e.g., options k. and l.). In such case, select the Hours of Service method at Question 17.

**NOTE:** Year of Service means Period of Service if elapsed time method is chosen.

**Waiver of conditions.** The service and/or age requirements specified above will be waived in accordance with the following (leave blank if there are no waivers of conditions):

| | Requirements waived | All Contributions | | Elective Deferrals/SH | Matching | Nonelective Profit Sharing |
|---|---|---|---|---|---|---|
| o. [X] | If employed on August 1, 2016 the following requirements, and the entry date requirement, will be waived. The waiver applies to any Eligible Employee unless c. selected below. Such Employees will enter the Plan as of such date (select a. and/or b. AND c. if applicable; also select 1. OR all that apply of 2. - 4.): | 1. [X] | **OR** | 2. [ ] | 3. [ ] | 4. [ ] |
| | a. [X] service requirement (may let part-time Eligible Employees into the Plan) | | | | | |
| | b. [X] age requirement | | | | | |
| | c. [X] waiver is for: DFINE employees employed on August 1, 2016 (e.g., Employees of a specific division or Employees covered by a Code §410(b)(6)(C) acquisition) | | | | | |
| p. [ ] | If employed on _____the following requirements, and the entry date requirement, will be waived. The waiver applies to any Eligible Employee unless c. selected below. Such Employees will enter the Plan as of such date (select a. and/or b. AND c. if applicable; also select 1. OR all that apply of 2. - 4.): | 1. [X] | **OR** | 2. [ ] | 3. [ ] | 4. [ ] |
| | a. [ ] service requirement (may let part-time Eligible Employees into the Plan) | | | | | |
| | b. [ ] age requirement | | | | | |
| | c. [ ] waiver is for: _____ (e.g., Employees of a specific division or Employees covered by a Code §410(b)(6)(C) acquisition) | | | | | |

**Amendment or restatement to change eligibility requirements**

q. [ ] This amendment or restatement (or a prior amendment and restatement) modified the eligibility requirements and the prior eligibility conditions continue to apply to the Eligible Employees specified below. If this option is NOT selected, then all Eligible Employees must satisfy the eligibility conditions set forth above.

1. [ ] The eligibility conditions above only apply to Eligible Employees who were not Participants as of the effective date of the modification.

2. [ ] The eligibility conditions above only apply to individuals who were hired on or after the effective date of the modification.

The Employer executes this Amendment on the date specified below.

**Merit Medical Systems, Inc.**

Date: December 23, 2016

By /s/ Fred P. Lampropoulos

EMPLOYER

**Exhibit 10.2**

**TENTH AMENDMENT**
**TO THE SECOND RESTATEMENT OF THE**
**MERIT MEDICAL SYSTEMS, INC. 401(k) PROFIT SHARING PLAN**

This Tenth Amendment to the Second Restatement of the Merit Medical Systems, Inc. 401(k) Profit Sharing Plan (the "Plan") is hereby amended as follows, effective as of **January 1, 2017**, except as otherwise provided herein:

Section 13 of the Adoption Agreement entitled "ELIGIBLE EMPLOYEES" is amended as follows:

**ELIGIBILITY REQUIREMENTS**

ELIGIBLE EMPLOYEES (Plan Section 1.28) means all Employees (including Leased Employees) EXCEPT those Employees who are excluded below or elsewhere in the Plan:

a. [ ] **No excluded Employees.** There are no additional excluded Employees under the Plan (skip to Question 14).

b. [X] **Exclusions - same for all contribution types.** The following Employees are not Eligible Employees for all contribution types (select one or more of e. - k. below; also select 1. for each exclusion selected at e. - j.):

c. [ ] **Exclusions - different exclusions apply.** The following Employees are not Eligible Employees for the designated contribution types (select one or more of d. - k. below; also select 1. OR all that apply of 2. - 4. for each exclusion selected at d. - j.):

**NOTE:** Unless otherwise specified in this Section, Elective Deferrals include Roth Elective Deferrals, after-tax voluntary Employee contributions, and rollover contributions; Matching includes QMACs; and Nonelective Profit Sharing includes QNECs. **"ADP test safe harbor contributions" (SH) (including those made pursuant to a QACA) and SIMPLE 401(k) contributions are subject to the exclusions for Elective Deferrals except as provided in Question 27.**

| Exclusions | All Contributions | | Elective Deferrals/SH | Matching | Nonelective Profit Sharing |
|---|---|---|---|---|---|
| d. No exclusions | N/A | **OR** | 2. [ ] | 3. [ ] | 4. [ ] |
| e. Union Employees (as defined in Plan Section 1.28) | 1. [ ] | **OR** | 2. [ ] | 3. [ ] | 4. [ ] |
| f. Nonresident aliens (as defined in Plan Section 1.28) | 1. [ ] | **OR** | 2. [ ] | 3. [ ] | 4. [ ] |
| g. Highly Compensated Employees (Plan Section 1.41) | 1. [ ] | **OR** | 2. [ ] | 3. [ ] | 4. [ ] |
| h. Leased Employees (Plan Section 1.49) | 1. [ X ] | **OR** | 2. [ ] | 3. [ ] | 4. [ ] |

| | | | | | |
|---|---|---|---|---|---|
| i. Part-time/temporary/seasonal Employees. A part-time, temporary or seasonal Employee is an Employee whose regularly scheduled service is less than ___ Hours of Service in the relevant eligibility computation period (as defined in Plan Section 1.88). However, if any such excluded Employee actually completes a Year of Service, then such Employee will no longer be part of this excluded class. | 1. [ ] | **OR** | 2. [ ] | 3. [ ] | 4. [ ] |
| j. Other: Temporary and Seasonal Employees as designated in the Employer's records. However, if any such excluded Employee completes a Year of Service, then, beginning on the first day following completion of a Year of Service, such Employee will no longer be part of this excluded class. (must be definitely determinable, may not be based on age or length of service (except in a manner consistent with i. above) or level of Compensation, and, if using the average benefits test to satisfy Code §410(b) coverage testing, much be a reasonable classification. | 1. [ ] | **OR** | 2. [ ] | 3. [ ] | 4. [ ] |

k. [ ] Other: _____ (must (1) specify contributions to which exclusions apply, (2) be definitely determinable and not based on age or length of service (except in a manner consistent with i. above) or level of Compensation, and, (3) if using the average benefits test to satisfy Code §410(b) coverage testing, be a reasonable classification).

**Effective February 1, 2017:**

Section 16 of the Adoption Agreement entitled "RECOGNITION OF SERVICE WITH OTHER EMPLOYERS" is amended as follows:

**SERVICE**

RECOGNITION OF SERVICE WITH OTHER EMPLOYERS (Plan Sections 1.62 and 1.88)

a. [ ] No service with other employers is recognized except as otherwise required by law (e.g., the Plan already provides for the recognition of service with Employers who have adopted this Plan as well as service with Affiliated Employers and predecessor Employers who maintained this Plan; skip to Question 17).

b. [X] Prior service with the designated employers is recognized as follows (answer c. and select one or more of c.1. - 3.; select d. - g. as applicable) (if more than 3 employers, attach an addendum to the Adoption Agreement or complete option l. under Section B of Appendix A to the Adoption Agreement (Special Effective Dates and Other Permitted Elections)):

| Other | Employer | Eligibility | Vesting | Contribution Allocation |
|---|---|---|---|---|
| c. [ X ] | Employer name: Argon Medical Devices | 1. [ X ] | 2. [ X ] | 3. [ X ] |
| d. [ ] | Employer name: _____ | 1. [ ] | 2. [ ] | 3. [ ] |
| e. [ ] | Employer name: _____ | 1. [ ] | 2. [ ] | 3. [ ] |
| f. [ ] | Any entity the Employer acquires whether by asset or stock purchase, buy only with respect to individuals who are employees of the acquired entity at the time of the acquisition. | 1. [ ] | 2. [ ] | 3. [ ] |
| **Limitations** | | | | |
| g. [X] | The following provisions or limitations apply with respect to the recognition of prior service: **Service with Argon Medical Devices and its subsidiaries will only be credited to employees hired by the Employer on February 1, 2017 as part of the asset purchase from Argon Medical Devices.** (e.g., credit service with x only on/following 1/1/13 or credit all service with entities the Employer acquired after 12/31/12) | 1. [ X ] | 2. [ X ] | 3. [ X ] |

**NOTE:** If the other Employer(s) maintained this qualified Plan, then Years (and/or Periods) of Service with such Employer(s) must be recognized pursuant to Plan Sections 1.62 and 1.88 regardless of any selections above.

The Employer executes this Amendment on the date specified below.

**Merit Medical Systems, Inc.**

Date: November 17, 2017

By /s/ Fred P. Lampropoulos

EMPLOYER

**Exhibit 10.3**

**ELEVENTH AMENDMENT**
**TO THE SECOND RESTATEMENT OF THE**
**MERIT MEDICAL SYSTEMS, INC. 401(k) PROFIT SHARING PLAN**

This Eleventh Amendment to the Second Restatement of the Merit Medical Systems, Inc. 401(k) Profit Sharing Plan (the "Plan") is hereby amended on the date noted below.

WHEREAS, the Employer previously adopted the Plan; and

WHEREAS, the Employer reserves the right to amend said Plan from time to time; and

WHEREAS, the Employer desires to amend the Plan to allow Cianna Medical, Inc. to adopt as a Participating Employer;

WHEREAS, the Employer desires to amend the Plan to waive service and entry dates for Cianna Medical, Inc. and to recognize prior service with Vascular Insights, LLC for all purposes, and recognize prior service with NinePoint Medical, Inc. for purposes of vesting;

NOW, THEREFORE, effective January 1, 2019, Cianna Medical, Inc. will become a Participating Employer in the Plan as evidenced by the Participation Agreement executed by the Employer and Participating Employer.

FURTHERMORE, effective January 1, 2019, the Plan is amended by replacing the Adoption Agreement section(s) as noted below with the following language:

14. CONDITIONS OF ELIGIBILITY (Plan Section 3.1)
**Waiver of conditions.** The service and/or age requirements specified above will be waived in accordance with the following (leave blank if there are no waivers of conditions):

| Requirements Waived | | All Contributions | | Elective Deferrals/SH | Matching | Nonelective Profit |
|---|---|---|---|---|---|---|
| o. [X] | If employed on August 1, 2016 the following requirements, and the entry date requirement will be waived. The waiver applies to any Eligible Employee unless c. selected below. Such Employees will enter the Plan as of such date (select a. and/or b. AND c. if applicable; also select 1. OR all that apply of 2. -4):<br>a. [X] service requirement (may let part-time Eligible Employees into the Plan)<br>b. [X] age requirement<br>c. [X] waiver is for: DFINE employees employed on August 1, 2016 (e.g., Employees of a specific division or Employees covered by a Code §410(b)(6)(C) acquisition) | 1. [X] | **OR** | 2. [ ] | 3. [ ] | 4. [ ] |
| p. [X] | If employed on January 1, 2019 the following requirements, and the entry date requirement, will be waived. The waiver applies to any Eligible Employee unless c. selected below. Such Employees will enter the Plan as of such date (select a. and/or b. AND c. if applicable; also select 1. OR all that apply of 2. - 4.):<br>a. [X] service requirement (may let part-time Eligible Employees into the Plan)<br>b. [ ] age requirement<br>c. [X] waiver is for: Cianna Medical, Inc. employees who were acquired by Merit Medical Systems, Inc. due to a stock acquisition on November 13, 2018 (e.g., Employees of a specific division or Employees covered by a Code §410(b)(6)(C) acquisition) | 1. [X] | **OR** | 2. [ ] | 3. [ ] | 4. [ ] |

**Amendment or restatement to change eligibility requirements**

q. [ ] This amendment or restatement (or a prior amendment and restatement) modified the eligibility requirements and the prior eligibility conditions continue to apply to the Eligible Employees specified below. If this option is NOT selected, then all Eligible Employees must satisfy the eligibility conditions set forth above.

1. [ ] The eligibility conditions above only apply to Eligible Employees who were not Participants as of the effective date of the modification.
2. [ ] The eligibility conditions above only apply to individuals who were hired on or after the effective date of the modification.

16. RECOGNITION OF SERVICE WITH OTHER EMPLOYERS (Plan Sections 1.62 and 1.88) 16 p.716

a. [ ] No service with other employers is recognized except as otherwise required by law (e.g., the Plan already provides for the recognition of service with Employers who have adopted this Plan as well as service with Affiliated Employers and predecessor Employers who maintained this Plan; skip to Question 17).

b. [X] Prior service with the designated employers is recognized as follows (answer c. and select one or more of c.1. - 3.; select d. - g. as applicable) (if more than 3 employers, attach an addendum to the Adoption Agreement or complete option l. under Section B of Appendix A to the Adoption Agreement (Special Effective Dates and Other Permitted Elections)):

| Other | Employer | Eligibility | Vesting | Contribution Allocation |
|---|---|---|---|---|
| c. [X] | Employer name: Argon Medical Devices | 1. [X] | 2. [X] | 3. [X] |
| d. [X] | Employer name: Vascular Insights, LLC | 1. [X] | 2. [X] | 3. [X] |
| e. [X] | Employer name: NinePoint Medical, Inc. | 1. [ ] | 2. [X] | 3. [ ] |
| f. [ ] | Any entity the Employer acquires whether by asset or stock purchase, but only with respect to individuals who are employees of the acquired entity at the time of the acquisition | 1. [ ] | 2. [ ] | 3. [ ] |
| g. [X] | The following provisions or limitations apply with respect to the recognition of prior service: For employees hired by the Employer on December 14, 2018 as part of the asset purchase from Vascular Insights, LLC. Service with Argon Medical Devices and its subsidiaries will only be credited to employees hired by the Employer on February 1, 2017 as part of the asset purchase from Argon Medical Devices (e.g., credit service with X only on/following 1/1/13 or credit all service with entities the Employer acquires after 12/31/12) | 1. [X] | 2. [X] | 3. [X] |

**NOTE:** If the other Employer(s) maintained this qualified Plan, then Years (and/or Periods) of Service with such Employer(s) must be recognized pursuant to Plan Sections 1.62 and 1.88 regardless of any selections above.

Except as amended hereinabove, the Plan shall remain unchanged, and as amended herein, shall continue in full force and effect.

**IN WITNESS WHEREOF**, the Employer has executed this Amendment this 6th day of May, 2019.

**Merit Medical Systems, Inc.**

By: /s/ Fred P. Lampropoulos

Title: Chairman and Chief Executive Officer

**Exhibit 10.4**

**TWELFTH AMENDMENT**
**TO THE SECOND RESTATEMENT OF THE**
**MERIT MEDICAL SYSTEMS, INC. 401(k) PROFIT SHARING PLAN**

Merit Medical Systems, Inc. (the "Employer") hereby adopts this Twelfth Amendment to the Second Restatement of the Merit Medical Systems, Inc. 401(k) Profit Sharing Plan (the "Plan") on the date noted below.

WHEREAS, the Employer previously adopted the Plan; and

WHEREAS, the Employer reserves the right to amend said Plan from time to time; and

WHEREAS, the provisions of Item 14. are being amended retroactively to bring the Plan's terms into compliance with its operation pursuant to the Internal Revenue Service Employee Plans Compliance Resolution System, as provided under Revenue Procedure 2018-52; and

WHEREAS, the Employer desires to amend the Plan to allow the early inclusion of eight otherwise Eligible Employees.

NOW, THEREFORE, effective June 1, 2018, the former employees of NinePoint Medical, Inc. hired by the Employer May 1, 2018 and on May 13, 2018 will be allowed to enter the Plan on June 1, 2018 and become Participants immediately.

Except as amended hereinabove, the Plan shall remain unchanged, and as amended herein, shall continue in full force and effect.

**IN WITNESS WHEREOF**, the Employer has executed this Amendment this 5th day of May, 2018.

**Merit Medical Systems, Inc.**

By: /s/ Fred P. Lampropoulos
Title: Chairman and Chief Executive Officer

**EXHIBIT 31.1**

**CERTIFICATION**

I, Fred P. Lampropoulos, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q (the "Report") of Merit Medical Systems, Inc. (the "Registrant");

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

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

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

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

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with general accepted accounting principles;

c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Report based on such evaluation; and

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

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

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

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

Date: August 9, 2019

/s/ Fred P. Lampropoulos

Fred P. Lampropoulos
President and Chief Executive Officer
(principal executive officer)

**EXHIBIT 31.2**

**CERTIFICATION**

I, Raul Parra, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q (the "Report") of Merit Medical Systems, Inc. (the "Registrant");

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

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

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

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

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with general accepted accounting principles;

c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Report based on such evaluation; and

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

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

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

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

Date: August 9, 2019

/s/ Raul Parra

Raul Parra
Chief Financial Officer
(principal financial officer)

**EXHIBIT 32.1**

**Certification of Principal Executive Officer**
**Pursuant to 18 U.S.C. Section 1350, as Adopted**
**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report on Form 10-Q of Merit Medical Systems, Inc. (the "Company") for the quarter ended June 30, 2019, as filed with the Securities and Exchange Commission (the "Report"), I, Fred P. Lampropoulos, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

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

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 9, 2019

/s/ Fred P. Lampropoulos
Fred P. Lampropoulos
President and Chief Executive Officer
(principal executive officer)

This certification accompanies the foregoing Report pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Registrant for purposes of Section 18 of the Securities Exchange Act of 1934, as amended. A signed original of this certification has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**EXHIBIT 32.2**

**Certification of Chief Financial Officer**
**Pursuant to 18 U.S.C. Section 1350, as Adopted**
**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report on Form 10-Q of Merit Medical Systems, Inc. (the "Company") for the quarter ended June 30, 2019, as filed with the Securities and Exchange Commission (the "Report"), I, Raul Parra, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

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

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 9, 2019

/s/ Raul Parra
Raul Parra
Chief Financial Officer
(principal financial officer)

This certification accompanies the foregoing Report pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Registrant for purposes of Section 18 of the Securities Exchange Act of 1934, as amended. A signed original of this certification has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.