SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

|X| Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 1998 or

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

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

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

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

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

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

None

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

Title of Class
Common Stock, No Par Value

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

The aggregate market value of the Common Stock held by non-affiliates of the Registrant, based upon the closing sale price of the Common Stock on the NASDAQ National Market System on March 26, 1999, was approximately $32,156,930. Shares of Common Stock held by each officer and director and by each person who may be deemed to be an affiliate have been excluded.

As of March 26, 1999 the Registrant had 7,508,914 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The Registrant's definitive Proxy Statement relating to the Annual Meeting of Shareholders scheduled for May 26, 1999 is incorporated by reference in Part III of this report.

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

TABLE OF CONTENTS

PART I

DISCLOSURE REGARDING FORWARD -LOOKING STATEMENTS

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

Item 1. Business.
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GENERAL

Merit Medical Systems, Inc. (the "Company") was formed in 1987 by members of its current management for the purpose of producing single-use medical products of high quality and superior value primarily for use in diagnosis and treatment of cardiovascular disease. The Company's products are designed to provide physicians and other health care professionals with devices that enable them to perform interventional and diagnostic procedures safely and effectively. Initially, the Company's expertise in innovative product design and its proprietary technology and skills in injection and insert molding enabled it to introduce innovative new products and capture significant market share. The Company subsequently combined its plastics molding capability with the application of proprietary electronics and sensor-based technologies to develop a line of angioplasty inflation products with electronic sensing and display features. These devices are now included in a series of sensor-based products that address a broad range of needs related to diagnostic and interventional catheterization procedures performed in hospitals. Since 1997 the Company has expanded its product offerings to include catheters, guide wires, needles, drug infusion and wound irrigation devices.

The Company's strategy is to offer a broad line of innovative, disposable products for use in angiography, angioplasty and similar procedures and to increase market acceptance and penetration for both its existing and new products in the U.S. and in international markets. Longer term, the Company's strategy is to extend the application of its plastics molding, electronic and sensor-based technologies to develop products for diagnostic and interventional procedures in additional markets such as neuroradiology, urology, wound care, nephrology pain management and critical care. The Company's sales of products in combination and in custom kits have increased as additions have been made to the Company's product lines. In 1998, approximately 53% of the Company's sales were made directly to U.S. hospitals and approximately 25% of sales were made to custom packagers, distributors and O.E.M. companies who also distribute to U.S. hospitals. Approximately 22% of the Company's sales in 1998 were made in international markets.

The Company was organized in July 1987 as a Utah corporation. In July 1994, the Company purchased a controlling interest in Sentir, Inc., a California-based manufacturer of silicon sensors. The Company has also organized subsidiaries in Ireland, Germany, France, the United Kingdom, Belgium, and the

Netherlands to conduct its international business. On January 31, 1997, the Company purchased the operating assets and product lines of Universal Medical Instruments Corp.("UMI"). The Company's principal offices are located in a manufacturing and office facility at 1600 West Merit Parkway, South Jordan, Utah 84095, and its telephone number is (801) 253-1600. See "Item 2. Properties."

PRODUCTS

The Company's products have been designed and developed in response to the needs of customers and patients. These needs have been identified primarily through observation of procedures in the cardiac catheterization laboratories, consultation with the Company's medical advisors and consultants through direct communication with customers. Since 1988, the Company has developed and introduced several product lines, including control syringes ("CCS"and "Smart Tip"), inflation devices ("Intellisystem," "Monarch," and " Basix," including new 25-atmosphere versions of the (Intellisystem, Monarch and Basix devices), specialty syringes ("Medallion" and "VacLoc"), high pressure tubing and connectors ("Excite" and "Sherlock") , waste handling and disposal products ("Merit Disposal Depot" and "Backstop"), a disposable blood pressure transducer ("Meritrans"), disposable hemostasis valves ("Passage" and "Access-9" Access Plus), manifolds and stopcocks ("Marquis Series") a torque device and contrast management systems ("Miser" and "In-line Contrast Management System") Angiography needles ("Majestick series"), and blood containment devices ("Captiva"), pericardiocentesis catheters and procedure trays, PTCA Guide wires ("Tom Cat") and extension wires, thrombolytic infusion catheters ("Fountain") and accessories (Squirt") and diagnostic angiographic pigtail catheters. These products are sold separately and in custom kits consisting primarily of selected combinations of products Guide wires.

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

Inflation Devices. Inflation devices are specialized syringes used in interventional catheterization procedures to inflate and deflate balloon-tipped catheters. The Company has received a 510(k) for use of its digital inflation devices for a wide range of additional clinical applications such as esophageal dilation, trigeminal nerve compression, retinal detachment and discography. Each of the Company's inflation devices incorporates proprietary design features which contribute to ease of use, including allowing the clinicians to engage or release the syringe plunger with one hand while increasing or decreasing the pressure. Each syringe also provides a clear view of the fluid path that simplifies debubbling and contributes to accurate measurement of pressure.

The Company's Intellisystem(TM) 25 inflation device, which was the first such device to incorporate electronic sensing and display features, consists of a disposable 20cc inflation syringe and an integral pressure transducer which connects to an electronic monitor outside of the sterile field. To aid the marketing process and encourage use of the Company's products, the electronic monitor is provided without charge to customers using the IntelliSystem. The IntelliSystem measures, times, records and digitally displays information concerning the pressure, duration and number of each inflation and deflation of the angioplasty balloon. The Company believes that electronic sensing and display of such information is much more accurate and precise than that which can be obtained from conventional analog gauges. The data is stored and may be displayed, retrieved, graphed and printed.

The Monarch(TM) 25 is a disposable inflation device which digitally displays data concerning pressure and duration of inflations and deflations on a small electronic monitor mounted on the barrel of the inflation syringe. The monitor does not offer all of the display, storage or printing capabilities of the IntelliSystem but offers the convenience of portable operation.

The Basix(TM) 25 and the new basixCOMPAK(TM) are disposable inflation devices which incorporate a conventional analog pressure gauge, mounted on the barrel of the inflation syringe. The Basix more closely resembles devices marketed by the Company's competitors but incorporates the Company's proprietary design features and benefits. The Company believes that the Basix represents a significant addition to its line of inflation devices that will contribute to sales where both clinical and economic outcomes are a priority.

Control Syringes. The Company's disposable control syringes are utilized for one-handed control of the injection of contrast media and other fluids during angiography and angioplasty procedures. The control syringes are molded from polycarbonate material which is stronger than glass and other plastics used in the industry. The Company offers different models and sizes of the control syringes with varying features which respond primarily to physician preferences. These features include different configurations of syringe handles and plungers and connections which allow operation of the syringe in a fixed or rotating position. In response to customer demand, Merit launched latex- free control syringes in 1998.

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

High Pressure Contrast Injection Line and Sherlock Connectors. During angiographic and diagnostic radiology procedures, contrast media must be injected through a catheter into the blood vessel. This is sometimes accomplished by a mechanical injector which can generate pressures up to 1200 psi, and requires tubing that can withstand these pressures. The Company offers high pressure specialty tubing with proprietary Sherlock connectors. In 1998 the Company launched Excite(TM), a new line of clear, flexible high pressure tubing that combines the features of tubing clarity and strength. Sherlock connectors allow coupling and uncoupling of tubing with injectors, syringes and manifolds without over-tightening or breakage. The Company is currently offering specialty tubing which can handle pressures ranging from 500 to 1200 psi. The specialty tubing with Sherlock connectors is an important component of custom kits.

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

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

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

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

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

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

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

Angiographic Needles. The angiography needle creates the percutaneous access site for all angiography and angioplasty procedures. This site is the point of entry for the introducer sheath, guide wires, catheters and any other interventional devices. The Merit Majestik(TM) Needle helps the physician achieve precision vascular access with one of the sharpest angiography needles on the market.

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

Fountain(TM) Infusion Catheter. The Fountain catheter delivers specialized clot-dissolving drugs to help remove blood clots (thrombi) in peripheral vessels. This catheter is used to treat peripheral arterial occlusions, hemodialysis graft occlusions, and deep vein thrombosis. Marketing clearance was obtained for U.S. and European markets and sales of the Fountain catheter began in the second quarter of 1998. This product incorporates the Squirt fluid dispensing system for controlled fluid delivery.

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

Squirt(TM) Wound Irrigation. In any traumatic wound, the risk of infection is greatly decreased by the removal of bacteria and soil from the site. Merit launched a new line of Squirt wound irrigation products in 1998 designed for the emergency room to deliver large volumes of irrigation fluid. The product features a proprietary, one- handed Squirt fluid delivery syringe and an adjustable nozzle and splash protecting shield.

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

Pericardiocentesis. Merit offers a complete pericardiocentesis kit which combines a high-flow drainage catheter and virtually all components needed to place the device in the pericardial sack. This combination saves the physician both time and money by having all components in one convenience tray.

Meritrans(TM) Pressure Transducers. Diagnostic blood pressure monitoring is a clinical priority in virtually all diagnostic and interventional procedures. The Meritrans provides clinicians with reliable and precise blood pressure measurement. The clear, flow-through design makes flushing and debubbling simple and safe. The transducer is a critical component in many custom kit configurations.

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

MARKETING AND SALES

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

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

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

International Sales. Outside of the U.S., the Company's products are presently sold by 42 independent dealer organizations and 14 direct sales representatives in Germany, France, the United Kingdom, Canada, Belgium, the Netherlands, and Ireland. In 1998, the Company's international sales grew by 11% and accounted for approximately 22% of total sales. The Company has appointed a vice president for international sales and established an international sales and distribution office in Maastricht, The Netherlands. With the recent and planned additions to its product lines, the Company believes that international sales will continue to increase.

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

CUSTOMERS

The Company serves hospital-based cardiologists, radiologist, anesthesiologists, physiatrists (pain management), neurologists, ER physicians, technicians and nurses who practice. These clinicians influence the purchasing decision for Merit's products. Hospitals also purchase the Company's products in the U.S. through custom packagers and packers who assemble and combine products in custom kits and packs. The Company's customers outside the U.S. are hospitals and other end users in those countries where a direct sales force has been established, and in other countries are independent dealers in medical products who resell to hospitals and other customers.

In 1998 OEM sales represented 3.4 % of Merit's total revenue. The Company is investing heavily in people and programs to expand the OEM business. Merit recognizes the growth opportunity in this area. Sales to the Company's single largest customer, a foreign dealer, accounted for 5.1% of total sales during the year ended December 31, 1998. In 1998, approximately 53% of the Company sales were made directly to domestic hospitals, 25% to custom packagers and packers and 22% to international markets.

RESEARCH AND DEVELOPMENT

The Company believes that one of its important strengths is its ability to quickly adapt its expertise and experience in injection molding and to apply its electronic and sensor technologies to a perceived need for a new product or product improvement. The Company's development efforts are presently focused on disposable, innovative single-patient or single-use items which can be included in the Company's custom kits or sold separately. Longer-term projects include use of sensor-based technologies in a variety of applications and additional inflation devices with added capacities and features. There is a new focus on interventional vascular access products, such as needles, guide wires, and catheters. Certain of the Company's executive officers also devote a substantial portion of their time to research and development. Research and development expenses were $3,244,477, $4,446,795, and $2,533,171, in 1998, 1997 and 1996, respectively. There was no customer-sponsored research and development. The Company anticipates that such expenses will be at approximately 4.0% to 6.0% of sales for 1999.

MANUFACTURING

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

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

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

COMPETITION

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

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

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

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

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

Corresponding patent applications covering the claims included in the Company's U.S. patents and patent applications have been initiated in several foreign countries. The Company deems its patents and patents pending to be materially important to its business but does not believe its business is dependent on securing such patents. The Company negotiated a license in 1992 with respect to patents concerning technology utilized in its IntelliSystem and Monarch inflation devices in consideration of a 5.75% ongoing royalty not to exceed $450,000 annually. Royalties paid in each of 1998, 1997 and 1996 were $450,000.

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

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

## REGULATION

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

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

New medical devices may also be subject to either the Section 510(k) Pre-Market Notification regulations or the Pre-Market Approval ("PMA") regulations of the FDA and similar regulatory authorities in foreign countries. New products in either category require extensive documentation, careful engineering and manufacturing controls to ensure quality. Products needing PMA approval require extensive pre-clinical and clinical testing and clearance by the FDA prior to marketing. Products subject to the Section 510(k) Pre-Market Notification regulations require FDA clearance prior to marketing. To date, the Company's products have required only compliance with the Section 510(k) Pre-Market Notification regulations. The Company's products are subject to foreign regulatory approvals before they may be marketed abroad. The Company places the "CE" mark on devices and products sold in Europe. The Company has received ISO 9001 certification for its South Jordan facility, as well ISO 9002 for its Galway, Ireland facility.

EMPLOYEES

As of March 23, 1999, the Company employed 956 persons, including 760 in manufacturing, 90 in sales and marketing, 52 in engineering, research and development and 54 in administration.

Many of the Company's present employees are highly skilled. The Company's failure or success will depend, in part, upon its ability to retain such employees. Management is of the opinion that an adequate supply of skilled employees is available. The Company has from time to time experienced rapid turnover among its entry level assembly workers as well as occasional shortages of such workers, resulting in increased labor costs and administrative expenses related to hiring and training of replacement and new entry-level employees. The Company has confidentiality agreements with its key employees, including each of its executive officers. None of the Company's employees are represented by a union or other collective bargaining group and management of the Company believes that its relations with its employees are good.

FINANCIAL INFORMATION ABOUT FOREIGN AND DOMESTIC OPERATIONS AND EXPORT SALES

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

## Item 2. Properties.

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

The Company is leasing a building of approximately 26,500 square feet in Galway, County Galway, Republic of Ireland as its principal office and manufacturing facility for European operations. This facility is used as the administrative headquarters to support the European direct sales force. The facility also houses a research and development team which has developed a new PTCA guide wire and is developing other new products. Beginning in the fourth quarter of 1997, the Company initiated manufacturing operations for several new and existing products at the Galway facility, including custom kits, the BASIX inflation device and the Company's PTCA guide wire. In 1998 Merit began the manufacture of the hemostasis valve products. The property has been improved and equipped on terms favorable to the Company in connection with economic development grant incentives and grants provided by the Irish Government. This lease is for 20 years at approximately $135,000 per year, less a 40% subsidy from the Irish government, available through 1999. The Company also has a purchase option exercisable on terms deemed favorable to the Company through the term of the lease.

During 1998 the Company sold approximately 1 1/2 acres of land and a building of approximately 25,000 square feet in Castlerea, County Roscommon, Republic of Ireland.

In September, 1998, the Company closed a 32,000 square foot facility in Saratoga Springs, New York, where the product lines acquired from UMI (needles, catheters and guide wires) were being manufactured. The needles and catheters have been transferred to Salt Lake City and the guide wires to Galway, Ireland.

In October 1997, the Company began manufacturing operations in a facility of approximately 25,000 square feet of manufacturing space formerly occupied by the Company in Murray, Utah and shifted production of several well-established products to this facility. In 1998 Merit added an additional 25,000 square feet of manufacturing space to its Murray location. The additional manufacturing space was obtained to create room at the Company's principal manufacturing facility for production of new products. The leases are for a term of five years with monthly lease payments of approximately $26,365.

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

## Item 3. Legal Proceedings.

On February 4, 1994, an action was filed in the Third District Court of Salt Lake County, State of Utah by an individual claiming to be a shareholder of the Company and naming the Company, Fred P. Lampropoulos, President of the Company, and Sentir, a company founded by Mr. Lampropoulos, as defendants. The claims against the Company were subsequently dismissed. The complaint also asserts claims on behalf of the Company (derivative claims) against Mr. Lampropoulos and Sentir, alleging breach of fiduciary duty, and the improper taking of a corporate opportunity in connection with the formation of Sentir. The relief sought in connection with the derivative claims included disgorgement, costs, and attorney's fees. The Company appointed an independent Special Litigation Committee of the Board to determine the Company's course of action on the derivative claims which engaged counsel separate from the Company's usual counsel for purposes of the derivative claims. On November 7, 1995, pursuant to a Motion filed on behalf of the Company's Special Litigation Committee, the Court made a minute entry granting the motion to Dismiss the derivative claims, without prejudice. On November 4, 1996, the Special Litigation Committee delivered its report essentially concluding that the derivative claims were not well founded. Nevertheless, on November 22,1996, the plaintiff refiled only the derivative claims in the Third District court of Salt Lake County, State of Utah and on January 22, 1997, a motion to dismiss was filed on behalf of the Company, seeking to terminate the litigation and asserting that the report of the Special Litigation Committee is entitled to deference under the law. The motion to dismiss was granted by the court, and judgment was entered on September 21, 1998, dismissing the action. The Plaintiff has appealed the judgment and the appeal is still pending.

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

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

## PART II

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

The "Market Information" included in the Company's Annual Report to Shareholders for the year ended December 31, 1998 furnished herewith to the Commission as Exhibit 13.1 to this report on Form 10-K, is incorporated herein by reference.

### Item 6. Selected Financial Data.

The "Selected Financial Data" included in the Company's Annual Report to Shareholders for the year ended December 31, 1998 furnished herewith to the Commission as Exhibit 13.1 to this report on Form 10-K, is incorporated herein by reference.

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

The "Management's Discussion and Analysis of Financial Condition" included in the Company's Annual Report to Shareholders for the year ended December 31, 1998 furnished herewith to the Commission as Exhibit 13.1 to this report on Form 10-K, is incorporated herein by reference.

### Item 8. Financial Statements and Supplementary Data.

The Company's financial statements and notes included in the Company's Annual Report to Shareholders for the year ended December 31, 1998 furnished herewith to the Commission as Exhibit 13.1 to this report on Form 10-K are incorporated herein by reference.

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

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

## PART III

Item 10, 11, 12 and 13.

These items are incorporated by reference to the Company's definitive Proxy Statement relating to the Annual Meeting of Shareholders scheduled for May 26, 1999. The definitive Proxy Statement will be filed with the Commission not later than 120 days after December 31, 1998, pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended.

PART IV

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

(a) Documents Filed as Part of this Report:

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

-- Independent Auditors' Report

-- Balance Sheets as of December 31, 1998 and 1997

-- Statements of Operations for the Years Ended December 31, 1998, 1997 and 1996

-- Statements of Stockholders' Equity for the Years Ended December 31, 1998, 1997 and 1996

-- Statements of Cash Flows for the Years Ended December 31, 1998, 1997 and 1996

-- Notes to Financial Statements

(b) Reports on Form 8-K:

None.

(C) Exhibits:

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

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

| | Description | Exhibit No. |
|---|---|---|
| 10.6 | Amendment to Loan Agreement with Zions First National Bank dated October 10, 1997 | [Form 10-K for year ended December 31, 1997, Exhibit No. 10.5] |
| 10.7 | Amendment to Loan Agreement with Zions First National Bank dated October 10, 1998 | Filed herewith |
| 13.1 | Annual Report to Shareholders for the year ended December 31, 1998. Certain portions of this exhibit are incorporated by reference into this report on Form 10-K; except as so incorporated by reference, the Annual Report to Shareholders is not deemed filed as part of this report on Form 10-K. | Filed herewith |
| 23.1 | Consent of Independent Auditors | Filed herewith |
| 27 | Financial Data Schedule - Twelve months ended December 31, 1998 | Filed herewith |

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* These exhibits are incorporated herein by reference.

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 29, 1999.

MERIT MEDICAL SYSTEMS, INC.

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on March 29,1999.

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

SECOND LOAN EXTENSION AND
MODIFICATION AGREEMENT

This Second Loan Extension and Modification Agreement (this "Agreement") is made and entered into this 2nd day of October, 1998, by and between ZIONS FIRST NATIONAL BANK ("Lender") and MERIT MEDICAL SYSTEMS, INC., ("Merit Medical Systems"), MERIT MEDICAL INTERNATIONAL, INC. ("Merit Medical International"), MERIT HOLDINGS, INC. ("Merit Holdings"), and SENTIR, INC. ("Sentir"). Merit Medical Systems, Merit Medical International, Merit Holdings, and Sentir are hereafter collectively referred to as "Borrowers").

Recitals
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A. Borrowers have a revolving line of credit (the "Line of Credit") with Lender in the current maximum principal amount of $10,500,000.00, evidenced and governed by the following documents, among others (collectively the "Loan Documents"):

1. Loan Agreement dated October 10, 1995 entered into by Merit Medical Systems (the "Loan Agreement");
2. Promissory Note dated October 10, 1995 in the original maximum principal amount of $8,500,000.00 entered into by Merit Medical Systems (the "Note");
3. Trust Deed with Assignment of Rents dated October 10, 1995, executed by Merit Medical Systems, as Trustor, and recorded October 18, 1995 as Entry No. 6192795 in Book 7251 beginning at Page 0903 of the official records of the Salt Lake County Recorder (the "Trust Deed");
4. Security Agreement dated October 10, 1995, entered into by Merit Medical Systems, whereby Merit Medical Systems granted to Lender a security interest in, among other things, all of its inventory, accounts, general intangibles (including, without limitation, certain patents described in the Security Agreement), equipment, furnishings, and fixtures, all as more particularly described in the Security Agreement (the "Security Agreement");
5. Loan Extension and Modification Agreement dated October 10, 1997 entered into by Merit Medical Systems, whereby the Line of Credit was modified as follows: (a) the maturity date of the Line of Credit was extended to October 1, 1998, (b) the maximum principal amount of the Line of Credit was increased to $10,500,000.00, (c) the interest rate on the Line of Credit was reduced by .25%, (d) the maximum amount of raw materials and finished goods used to calculate the limitation on advances under the Line of Credit was increased from $3,000,000.00 to $3,500,000.00, (e) the ratio of total liabilities to tangible net worth was increased from [1.0 to 1.0] to [1.10 to 1.0], and (f) the maximum working capital requirement was increased from $7,000,000.00 to $9,000,000.00;
6. Supplemental Trust Deed dated October 10, 1997 executed by Merit Medical Systems, as Trustor, and



recorded October 21, 1997 as Entry No. 6768327 in Book 7786 beginning at Page 0554 of the official records of the Salt Lake County Recorder;
7. Loan Assumption Agreement dated October 10, 1997 entered into by Borrowers, whereby Merit Medical International, Merit Holdings, and Sentir assumed the liabilities, duties, and obligations of Merit Medical Systems under the Loan Documents and became additional makers of the Note, and Merit Holdings and Sentir became additional debtors under the Security Agreement, all without affecting the existing liabilities of Merit Medical Systems thereunder (the "Assumption Agreement").

B. Borrowers have requested that Lender extend the maturity date of the Line of Credit until October 1, 1999 and modify the Line of Credit by: (a) reducing the interest rate based on the LIBOR Rate by 1.00% and (b) increasing the maximum amount of raw materials and finished goods used to calculate the limitation on advances under the Line of Credit from $3,500,000.00 to $4,000,000.00. Lender is willing to do so, subject to the terms and conditions of this Agreement, which include not interrupting or otherwise adversely affecting the priority of Lender's lien and security interests created under and evidenced by the Trust Deed and the Security Agreement.

Agreement
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For good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Lender and Borrowers hereby agree and modify the Line of Credit and Loan Documents as follows:

1. Except as otherwise expressly provided herein, terms defined in the

Loan Documents shall have the same defined meanings in this Agreement.

2. The parties represent and warrant to each other that, in deciding to enter into this Agreement, they each (a) made their own due diligence investigation and evaluation; (b) had all of the information they needed; (c) did not rely on any statements, acts, or omissions except as expressly set forth in this Agreement; (d) were not acting under any duress, compulsion, or undue influence; and (e) were (or had the opportunity to be) advised by independent legal counsel.

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

A. The maturity date of the Line of Credit is extended from October 1, 1998 to October 1, 1999. All amounts owing on the Line of Credit shall become immediately due and payable on October 1, 1999.

B. The interest rate based on the LIBOR Rate (as defined in the Note) specified in the Note shall be reduced by 1.00%, or in other words from 2.85% above the LIBOR Rate to 1.85% above the LIBOR Rate.

C. The maximum amount of raw materials and finished goods used to calculate the limitation on advances under the Line of Credit are increased from $3,500,000.00 to $4,000,000.00.

D. The following provision is hereby added to the Loan Agreement:

Year 2000 Compliance. "Year 2000 compliant" means, with regard to any entity, that all material software utilized by such entity is able to fully function without causing any error to such entity's date-sensitive data. "Providers" means the key suppliers, vendors, and customers of Borrowers whose business failure would, with reasonable probability, result in a material adverse change in the financial condition or prospects of Borrowers.

Borrower has or will soon have (i) undertaken a detailed assessment of all areas within its initial business and operations that could be adversely affected by the failure of Borrowers to be Year 2000 compliant, (ii) developed and implemented a detailed plan for becoming Year 2000 compliant on a timely basis, and (iii) made written inquiry of each of its Providers as to whether the Providers will be Year 2000 compliant on a timely basis. Borrowers will promptly advise Lender in writing upon the occurrence of any of the following: (i) Borrowers determine or Borrowers are advised by their accountants, financial advisers, consultants, or any Provider that Borrowers or any Provider will not be Year 2000 compliant on a timely basis or (ii) Borrowers or any Provider experiences data or data processing problems due to failure to be Year 2000 compliant.

4. Contemporaneous with the execution and delivery of this Agreement, Merit Medical Systems shall execute and deliver to Lender a Supplemental Trust Deed, in a form acceptable to Lender, whereby the Trust Deed is supplemented to state the extended maturity date and reduced interest rate under the Line of Credit.

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

6. Representations and Warranties. Borrowers each hereby affirm and again make the representations and warranties set forth in Article 5 Representations and Warranties of the Loan Agreement and Paragraph 5 of the Assumption Agreement as of the date of this Agreement.

7. Authorization. Borrowers each represent and warrant that the execution, delivery, and performance of this Agreement and all agreements, documents, obligations, and transactions herein contemplated have been duly

authorized by all necessary corporate action on the part of each Borrower and are not inconsistent with the Articles of Incorporation, By-Laws, or any resolution of the Board of Directors of any Borrower, do not and will not contravene any provision of, or constitute a default under, any indenture, mortgage, contract, or other instrument to which any Borrower is a party or by which any Borrower is bound, and that upon execution and delivery hereof, this Agreement will constitute a legal, valid, and binding agreement and obligation of each Borrower, enforceable in accordance with its terms.

8. Conditions to Modification. This Agreement shall become valid, binding, and enforceable only upon satisfaction of the following conditions. All of the documents referred to below must be in a form and substance acceptable to Lender.

a. This Agreement and all other documents requested by Lender shall have been fully executed and delivered to Lender.

b. All of the documents requested by Lender which require filing or recording have been properly filed and recorded so that all of the liens and security interests granted to Lender in connection with the Loan will be properly created and perfected and will have a priority acceptable to Lender.

All conditions precedent set forth in this Agreement are for the sole benefit of Lender and may be waived unilaterally by Lender.

9. Integrated Agreement; Amendment. This Agreement and the Loan Documents, as modified by this Agreement, constitute the entire agreements and understandings between the parties with respect to the Line of Credit, and may not be altered or amended except by written agreement signed by the parties. PURSUANT TO UTAH CODE SECTION 25-5-4, BORROWERS ARE NOTIFIED THAT THIS AGREEMENT AND THE LOAN DOCUMENTS, AS MODIFIED BY THIS AGREEMENT, ARE A FINAL EXPRESSION OF THE AGREEMENTS BETWEEN LENDER AND BORROWERS AND THESE AGREEMENTS MAY NOT BE CONTRADICTED BY EVIDENCE OF ANY ALLEGED ORAL AGREEMENT.

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

LENDER:
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ZIONS FIRST NATIONAL BANK

By: /s/ Jennifer T. Sullivan
---

Title: Asst. Relationship Manager
---

BORROWERS:
---

MERIT MEDICAL SYSTEMS, INC.

By: /s/ Kent Stanger
---

Title: CFO
---

MERIT MEDICAL INTERNATIONAL, INC.

By: /s/ Kent Stanger
---

Title: V.P.
---

MERIT HOLDINGS, INC.

By: /s/ Kent Stanger
---

Title: V.P.
---

SENTIR, INC.

By: /s/ Kent Stanger
---

Title: SEC
---

Annual Report 1998
MERIT MEDICAL SYSTEMS, INC.

Table of Contents and Financial Highlights



| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 1998 | 1997 | 1996 | 1995 | 1994 |
| Operating Data: | | | | | |
| Sales | $68,377,357 | $60,579,011 | $50,455,766 | $42,587,284 | $33,324,245 |
| Gross profit | 25,943,484 | 22,812,895 | 21,136,149 | 17,599,286 | 14,325,230 |
| Income before taxes | 4,290,346 | 1,775,516 | 3,630,152 | 2,000,695 | 1,993,265 |
| Net income | 2,451,159 | 787,532 | 2,162,608 | 1,221,237 | 1,250,847 |
| Net income per share | $ .33 | $ .11 | $ .31 | $ .18 | $ .19 |
| Weighted average shares outstanding | 7,488,225 | 7,369,668 | 7,051,911 | 6,851,164 | 6,678,041 |
| Balance Sheet Data: | | | | | |
| Working capital | $15,779,725 | $14,737,971 | $12,761,211 | $ 9,518,971 | $ 9,032,899 |
| Total assets | 50,664,786 | 45,269,678 | 41,718,553 | 34,503,858 | 27,024,267 |
| Long-term debt | 3,388,835 | 3,913,686 | 4,822,126 | 1,778,953 | 827,592 |
| Stockholders' equity | $29,086,368 | $25,802,149 | $22,487,123 | $19,264,525 | $17,537,029 |


Corporate Headquarters
Merit Medical Systems, Inc.
1600 West Merit Parkway
South Jordan, Utah 84095
801-253-1600

President's letter to Shareholders

Dear Shareholders:

Your Company experienced a very rewarding and exciting year in 1998. Merit recorded the highest revenues and net income in its history, despite continuing challenges in health care reform. Considerable improvements made in Merit's European operations, which includes the Ireland manufacturing facility and the European direct sales force, were the major contributing factors to these financial benchmarks.

During 1998 the Ireland facility became profitable by converting research and development expenditures into manufacturing allocations for the new Tomcat(tm) PTCA guide wire. In addition, this facility began producing other products for sale by the Company's European and domestic sales forces. Merit created additional manufacturing space at the Ireland facility by moving its warehouse and customer service functions to a more central location in Maastricht, The Netherlands, thereby improving the Company's distribution capabilities and response times in foreign markets.

Also, management effected cost-cutting measures during the year. Particularly, the manufacturing facility in New York was closed. Guide wire and catheter technologies were transferred from this facility to either Ireland or the Salt Lake headquarters to assist with our primary use strategy. By moving these operations to existing facilities, Merit saves approximately $250,000 per year in duplicate operating expenses.

Financial Performance

Merit's strategy of marketing its existing and new products by a direct sales force both domestically and in Europe resulted in a record year in terms of revenues and earnings per share. Revenues for the fiscal year were $68.4 million compared with $60.6 million in 1997, a gain of 13 percent. Net income rose to a record $2.452 million, or $0.33 per share, compared to $0.787 million, or $0.11 per share in 1997. The Company's cost of sales rose only 12.4 percent and its gross profit margin expanded two basis points to 37.9 percent.

Revenue growth slowed somewhat from previous years due to changes in the health care environment and Merit's close monitoring of its margin-sensitive custom kits, as well as effects on sales from discontinued items pertaining to the closure of our manufacturing facility in New York. Margins continued to increase due to several factors, including pricing strategies on kits, a better sales mix of higher margin products, economies of scale and contributions from new products.

Merit maintained its control on overall costs throughout the year. With the Ireland manufacturing facility becoming operational, research and development costs declined to 4.7 percent from 7.3 percent in 1997. The Company continues to invest heavily in research and development, however, with over thirty projects ongoing. As selling, general and administrative costs are mostly fixed, these expenditures continued to decline as a percent of sales to 25.6 percent from 26 percent in 1997. Income from operations grew to 7.6 percent of sales from 4.4 percent of sales the prior year, and income before taxes grew to 6.4 percent of sales compared with 2.9 percent in 1997.

Changing Environment

As most people are now aware, the health care industry has been going through sweeping changes for the last several years. These changes are being driven by the ways in which hospitals are reimbursed for the procedures they perform and the products they purchase. These reimbursement procedures have caused hospitals to maximize purchasing efficiencies and reduce overall costs, resulting in rapid consolidation among industry vendors as they attempt to provide "one-stop shopping" for the hospitals. In addition, hospitals have been purchased by large hospital product purchasing consortium groups which are becoming more dominant on a nationwide basis.

These purchasing groups are now determining the vendors and products used by their hospitals in an attempt to consolidate suppliers, bundle products together and further reduce costs. Merit recognizes that hospital buying groups are now looking at cardiac catheterization labs as an area for cost reduction. The Company has developed an internal team solely for the purpose of responding to these organizations, and for submitting and securing bids for their hospital members. In November 1998, a national contract was awarded to Merit by Tenet Healthcare Corporation for Merit's proprietary inflation devices. Additional contracts with other national groups are being negotiated for many of Merit's products.

In order to evolve its core competency of injection and insert molding of plastic parts, Merit is developing a rapidly growing OEM contract business for third parties. A small sales force has been established to meet the growing demands of our OEM customers. New, proprietary opportunities in emerging technologies are being identified that have not come under the scrutiny of purchasing organizations. In the first quarter of 1999 Merit established a presence on the Internet with the web site, www.merit.com. One of the major focuses of this new site is the Company's OEM business. Merit plans to further develop the OEM portion of this site to include an E-commerce application from which a customer can design and directly order his own product. By utilizing its strengths in national accounts and OEM manufacturing, along with the continued introduction of new products, Merit should be able to preserve and grow its existing business in a steady and profitable manner.

Merit Medical is the world market leader in inflation devices used for PTCA balloon angioplasty and/or stent deployment and has a strong market position with other molded plastic products used in cardiology and radiology. We have made a conscious decision to augment our base business in this molded parts arena to include differentiated, high-quality components like new needles, syringes, manifolds, hemostasis valves, check relief valves and other products with sustainable competitive advantages. Last year the Company introduced nine new products, including the Tomcat(tm) guide wire, the Fountain(tm) Infusion Catheter and the Squirt(tm) Fluid Delivery System. Merit's new product pipeline has many products under development, several of which are planned for 1999 introduction.

Looking Ahead

In order to continue its growth strategy beyond the year 2000, Merit has developed a carefully structured plan centered on several fronts. We have focused on cardiology and radiology procedures by developing primary use products for emerging technologies that provide better outcomes for patients or better safety for hospital personnel. This expansion has provided several opportunities for new product ideas and improvements to products currently used in these procedures.

For the last two years, Merit has been directing its research and development efforts toward primary use products-those that are more invasive in nature such as guide wires and catheters-and has plans to extend this strategy into multiple fronts. Merit Medical has developed a state-of-the-art guide wire manufacturing facility in Galway, Ireland. In 1998 the Company launched its first interventional PTCA guide wire and will be introducing many different types of guide wires in 1999 and beyond. It is Merit's intention to expand these capabilities and utilize existing resources in Ireland to create a Center of Excellence in guide wire technology and production.

Merit's satellite manufacturing facility in Salt Lake City has been developing expertise in catheter technology, some of which was acquired in 1997 from the facility in New York. Several different types of catheters are being researched and the Company anticipates designating this facility as a Center of Excellence in catheter technology.

For over two years, your company has been in the process of implementing a new Oracle database system for use with its accounting, operations and computer systems. I am happy to report that the system went live last November. This system ensures that Merit is Y2K compliant, as well as enabling the Company to better monitor and control its day-to-day operations. Merit is investing in its labor force to address availability of new hires, turnover and a number of other issues. Last year the Company began a new pilot program for Spanish-speaking employees to learn English. Called the "English as a Second Language Program," or ESL, this program is designed to broaden the capabilities of its Spanish-speaking employees, presenting them with additional career opportunities within Merit and better utilizing their excellent work ethics. If the pilot program is deemed successful, Merit intends to expand its ESL program to other nationalities within its work force.

There are considerable challenges facing us in 1999, particularly in terms of maintaining and growing the base business. Stabilizing the pricing of our products and securing national accounts will be two hurdles we face. We believe these challenges create opportunities. Merit has secured the European CE mark for most of its products. This allows us the opportunity to develop distribution relationships with small medical device companies with fine products but lacking the CE mark and no distribution capabilities. As an adjunct to this philosophy, our European sales network is being expanded. Merit currently has 13 direct sales representatives, with plans to add two more sales people in 1999.

With the addition of many new products in primary use niches and by closely monitoring the margin-sensitive portions of our business, we believe we have an excellent opportunity to continue top-line growth and expand the bottom line. We look forward to 1999 with enthusiasm as we implement these strategies. I thank you, the shareholders, for your continued support and confidence in Merit Medical and its drive for excellence throughout the years to come.

Best personal regards,
/s/ Fred P. Lampropoulos
Fred P. Lampropoulos
Chairman, Chief Executive Officer and President

## Products and Technology

Worldwide, cardiology procedures including balloon angioplasty and stent placement are growing at an average rate of about 15 percent per annum. The aging population rate, along with the use of new technology, has fueled this growth. Radiology procedures, such as diagnostic angiograms, and the use of thrombolytic procedures to dissolve and remove blood clots has kept pace with the aging population, growing at about 10 percent per annum. Worldwide, over 11 million people each year are referred to either a radiology or cardiology laboratory in a hospital to undergo diagnostic angiograms.

## Serving Customers' Needs Through Innovation

The driving force behind Merit Medical's growth has been its strength in serving customers' needs by producing high-quality products that improve clinical and economic outcomes. Many of Merit's key products have been developed by collaborating with clinical users. Merit Medical is well known in cardiac catheterization and radiology laboratories around the world for its innovation and quality of products. Developing these customer relationships over time has enabled Merit to maintain and expand its leadership position.

Several years ago, it became evident to Merit that clinicians used varied methods of combining Merit's products to perform diagnostic and therapeutic procedures according to their particular needs. In order to address the many different techniques used, Merit developed a custom kit strategy that allows each hospital or clinician to order exactly the type of products they want in a bundled format. Merit's custom kit program has become enormously popular since its inception in the early 1990's and now accounts for about 50 percent of its overall business.

Merit Medical has long been a leader in many of the disposable products needed to perform diagnostic and therapeutic procedures in the cardiology and radiology markets. These products include inflation devices, syringes, needles, pressure monitoring devices, contrast administration kits, manifold kits, hemostasis valves, blood management systems, diagnostic and therapeutic catheters, guide wires, introducers, stopcocks, and high-pressure tubing. The market segments into which these products are sold account for roughly $600 million annually.

Existing Products

Stand-alone products consist of the same products a hospital might purchase in a kit, but are sold separately. Merit's inflation devices are the Company's leading stand-alone product line and, through their innovation and quality, have established a world market leadership position. The inflation devices, which are used to inflate angioplasty balloons or deploy stents, come in three different models, depending upon the amount and accuracy of information the clinician desires during the procedure.

The Basix(tm) inflation device provides the means for a clinician to safely and effectively inflate a balloon during an angioplasty procedure, or deploy a stent. Its features include a 20ml syringe barrel with unmatched visual clarity, and it provides a strong vacuum during deflation. In addition it has a simple, analog gauge attached to the barrel which allows the clinician to view the inflation pressure being applied to the balloon or stent.

The second model, the Monarch25(tm), features a patented, digital display attached to the barrel of the syringe. It features higher-pressure performance and lets clinicians toggle display readings from ATM to PSI. It also allows access to previous inflations, highest pressure and duration of the inflation.

The third model, the IntelliSystem25(tm), is the flagship of this product line. Rather than having a small display attached to the barrel of the syringe, the IntelliSystem25(tm) provides a separate, patented digital monitor with a microprocessor. The monitor clearly displays the pressure, time and number of each inflation. It also tracks the time elapsed from the previous inflation, highest inflation pressure, and other information the clinician may need for an extremely accurate reading during the procedure. Merit is the only company that offers all three inflation device choices for clinicians around the world.

Merit frequently receives proposals involving new product development opportunities. A careful assessment is made to determine how well each opportunity fits with Merit's core competencies in injection and insert molding of plastics, electronic and sensor-based technologies, and wire and catheter technologies. With these basic guidelines in mind, Merit has developed a new product strategy to enter markets with devices that involve more invasive procedures and will yield higher margins.

The Fountain(tm) Infusion Catheter, introduced last year, fits well with Merit's existing catheter technology and strategy to enter more invasive markets. This innovative, patented catheter line was developed to help address the need for clinicians to dissolve, or lyse, blood clots in peripheral arteries and veins in order to restore blood flow. Pulsed infusion of thrombolytic drugs to dissolve these obstructions has been successful in dialysis grafts, peripheral bypass grafts, and peripheral arteriesand veins. The procedure to dissolve blood clots essentially combines the use of thrombolytic drugs with mechanical delivery to the site of the obstruction using Merit's Fountain(tm) Infusion Catheter.

As an adjunct to the Fountain(tm) catheter, the Squirt(tm) Infusion System was developed to allow doctors to deliver fluid into a patient's blood vessels using a one-handed method. Previously, doctors had to bring together syringes and other devices and create a small pumping system to infuse the fluid through the catheter. In order to activate the pumping system, it was necessary to use both hands to alternately pulse the syringes. The patented Squirt(tm) Infusion System saves doctors time and effort and, importantly, allows them a free hand to manipulate the position of the catheter during the lysing process.

Merit Medical's new product development efforts have been extremely active over the last several years and are accelerating. In 1998, Merit introduced nine new products, three of which have the potential to significantly impact Merit's revenues and earnings. Two of these products, the Tomcat(tm) guide wire and the Fountain(tm) Infusion Catheter, were introduced in response to Merit's strategy to enter new market segments with more invasive products. The third product, the Squirt(tm) Infusion System, is a proprietary delivery system that works in conjunction with the Fountain(tm) catheter to infuse fluids into a peripheral vessel.

The Tomcat(tm) line of PTCA guide wires was an important new product introduced in 1998. This device is used to guide a balloon angioplasty catheter through a vessel's tortuous pathway, penetrating an arterial lesion (blockage in an artery) in the patient's heart. Following over two years in the development process, Merit is proud of the high quality and excellent performance of this guide wire. Clinicians have labeled this product as one of the very best guide wires on the market. The technology and know-how needed to produce this product have been developed internally over the last several years and allow Merit to continue developing new guide wires for additional market niches.

New Products

Merit Medical was one of the first companies to introduce a 25 ATM inflation device, which is used for angioplasty balloon inflation for PTCA and stent deployment, and has since broadened its product offering in that line. The most recent addition to the 25 ATM product line came in April 1998 with the addition of the new basixCOMPAK(tm) inflation syringe with an angled gauge for easier visibility. The basixCOMPAK(tm) syringe is substantially smaller than its predecessors and takes less room on the procedure table, yet combines all of the features and benefits of larger devices. Sales of this device have rapidly expanded during 1998 and show the market's strong acceptance for this fine product. In addition to the basixCOMPAK(tm) device, Merit is developing a new, improved IntelliSystem(tm) monitor. Introduction of this new device is scheduled for late fiscal 1999.

To complement the Company's industry-leading line of inflation devices, Merit developed a complete angioplasty accessory pack. These packs include a new Access-Plus(tm) hemostasis valve to complement the Passage(tm) or Access-9(tm) hemostasis valves, torque device and guide wire introducer. Merit's hemostasis valves include a special, airless rotator to eliminate bubbles, exclusive Sherlock(tm) connector for easier connection, and a clear inner lumen for improved visualization. The Access-9(tm) model has a 9-french inner diameter which allows the entry of alternate therapy devices while maintaining hemostasis.

Tiny balloons are placed via long, thin catheters into an artery obstructed by plaque or blood clots. The balloon is seated directly in the center of the lesion and inflated with contrast solution under pressure using Merit's inflation device, compressing the obstruction into the wall of the artery.

New Products

The acceleration of Merit's research and development program goes hand in hand with its strategy of improving the overall product mix to yield higher margins. New products are under development to expand Merit's clinical expertise and broaden its offerings in both the guide wire and catheter arenas. Early in 1999, Merit plans to introduce three new products-two catheter lines and a guide wire extension with tool-which leverages and strengthens Merit's current technology.

The Company is expanding its existing products into new markets. There is a growing interest in markets outside of cardiology and radiology for the use of the IntelliSystem(tm) monitor to more accurately measure pressures in clinical applications such as discography, trigeminal nerve compression, esophageal dilation and retinal detachment. Another example is the use of the Squirt(tm) universal fluid dispensing syringe for wound irrigation in trauma centers, emergency rooms, burn units and alternate care units such as nursing homes.

Other new products are upgrades in quality and performance to existing devices; some are line extensions which broaden Merit's product offering; while others are innovative, new products which will allow Merit to gain entry into new niches. In conjunction with the sale of existing products, the impact upon sales from these new products will help continue Merit's revenue growth.

There are more than twenty products in the pipeline with intended introduction dates later in 1999 and 2000. Some of these include line extensions to Merit's guide wire and catheter technologies. For example, the 5 french size Fountain(tm) Infusion Catheter is used primarily in the upper to mid-leg and arms. In the first half of 1999 Merit will make available to clinicians a new line of smaller 4 French Fountain(tm) catheters which will expand the market to include lower arms and areas below the knee.

Selected Financial Data

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 1998 | 1997 | 1996 | 1995 | 1994 |
| Operating Data: | | | | | |
| Sales | $ 68,377,357 | $ 60,579,011 | $ 50,455,766 | $ 42,587,284 | $ 33,324,245 |
| Cost of sales | 42,433,873 | 37,766,116 | 29,319,617 | 24,987,998 | 18,999,015 |
| Gross profit | 25,943,484 | 22,812,895 | 21,136,149 | 17,599,286 | 14,325,230 |
| Selling, general, and administrative expenses | 17,528,002 | 15,726,651 | 14,311,049 | 12,808,805 | 10,232,215 |
| Research and development expenses | 3,244,477 | 4,446,795 | 2,533,171 | 2,330,324 | 2,069,882 |
| Income from operations | 5,171,005 | 2,639,449 | 4,291,929 | 2,460,157 | 2,023,133 |
| Other expense | 880,659 | 863,933 | 661,777 | 459,462 | 29,868 |
| Income before income tax expense | 4,290,346 | 1,775,516 | 3,630,152 | 2,000,695 | 1,993,265 |
| Income tax expense | 1,687,379 | 944,981 | 1,277,431 | 700,418 | 775,453 |
| Minority interest in (income) loss of subsidiary | (151,808) | (33,003) | (190,113) | (79,040) | 33,035 |
| Net income | 2,451,159 | 797,532 | 2,162,608 | 1,221,237 | 1,250,847 |
| Net income per share | $ .33 | $ .11 | $ .31 | $ .18 | $ .19 |
| Weighted average shares outstanding | 7,488,225 | 7,369,668 | 7,051,911 | 6,851,164 | 6,678,041 |
| Balance Sheet Data: | | | | | |
| Working capital | $ 15,779,725 | $ 14,737,971 | $ 12,761,211 | $ 9,518,971 | $ 9,032,899 |
| Total assets | 50,664,786 | 45,269,678 | 41,718,553 | 34,503,858 | 27,024,267 |
| Long-term debt | 3,388,835 | 3,913,686 | 4,822,126 | 1,778,953 | 827,592 |
| Stockholders' equity | $ 29,086,368 | $ 25,802,149 | $ 22,487,123 | $ 19,264,525 | $ 17,537,029 |

Management's Discussion & Analysis

OVERVIEW

Since its inception in 1987, Merit has made significant progress toward accomplishing its business plan objectives, including becoming a world leader for accessories in the cardiology and radiology markets, and developing world-class facilities with manufacturing, quality and regulatory capabilities supported by state-of-the-art accounting, data and communications systems.

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

Near the end of 1997, Merit's management evaluated the Company's market position in diagnostic and therapeutic accessory products and determined that bold new initiatives would be required to expand the Company's technology bases and product lines, resulting in growth in revenues, margins and profitability. Merit's growth strategy resulted in increased research and development expenditures to design, develop and deliver new, proprietary niche products. These new products are being marketed though the Company's distribution system to existing and new customers.

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

The Company's facility in Ireland has developed and begun to manufacture a significant new product-a PTCA (balloon angioplasty) guide wire. The Company's 72% owned subsidiary, Sentir, has expanded its marketing of high-quality sensors to new markets such as the defense and automotive industries. These initiatives required substantial expenditures, resulting in lower earnings in 1997. However, management believes the Company is now well positioned for growth and expansion of products, markets and profits.

1998 proved to be a record-breaking year for the Company, and Merit was able to achieve substantially all of its major financial objectives: Sales growth of 13% while achieving an increase in gross margin percentage; the ramp-up of manufacturing in our Galway, Ireland facility including the transfer of our hemostasis product; the completion of the development of the TomCat guide wire, and the ramp-up of production of this product with the associated reduction in R&D expenses. The resulting profitability in Ireland caused a significant improvement in Merit's effective tax rate of 39%, down from 53% in 1997. All of these factors resulted in an increase in earnings compared to 1997.

RESULTS OF OPERATIONS

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

| | 1998 | 1997 | 1996 |
|---|---|---|---|
| Sales | 100.0% | 100.0% | 100.0% |
| Gross profit | 37.9 | 37.7 | 41.9 |
| Selling, general and administrative | 25.6 | 26.0 | 28.4 |
| Research and development | 4.7 | 7.3 | 5.0 |
| Income from operations | 7.6 | 4.4 | 8.5 |
| Income before income tax expense | 6.3 | 2.9 | 7.2 |
| Net Income | 3.6 | 1.3 | 4.3 |

Sales increased by $7,798,346, or 12.9%, in 1998 compared to an increase of $10,123,245, or 20.1%, in 1997, and an increase of $7,868,482, or 18.5%, in 1996. Sales growth from 1996 through 1998 was favorably affected by the introduction of new products and increased sales of existing products sold separately and packaged in custom kits, and increased penetration of the market by Merit's inflation devices. International sales in 1998 were approximately $15,198,000, or 22%, compared to $13, 722,000, or 23%, in 1997, and $11,900,000, or 24%, in 1996. These increases were primarily a result of the ongoing growth in the direct sales force in Europe, as well as greater acceptance of the Company's products in other international markets. Direct sales in France, Germany, the U.K., Belgium, the Netherlands and Canada were $7,334,793, $6,615,697, and $5,350,786 in 1998, 1997 and 1996, respectively.

Gross profit as a percent of sales was 37.9%, 37.7%, and 41.9% in 1998, 1997, and 1996, respectively. Margins improved in 1998 compared to 1997 through increased production volumes, automation and efficiencies in the manufacturing, and some tighter price controls on some of the Company's low margin products. The decrease in gross profit in 1997 from 1996 was due to several factors, including increased sales of lower-margin custom kits; price competition, especially in European markets; a strong U.S. dollar affecting the currency translation of the Company's European sales; and domestic wage increases in response to competition for direct-labor employees. Gross margins were also affected by start-up and transition costs in the Company's newly organized Vascular Access Division relating to acquisition of assets from UMI.

Selling, general and administrative expense increased $1,801,351, or 11.5%, in 1998 over 1997 and $1,415,602, or 9.9%, in 1997 over 1996. These additional expenditures were related principally to the costs of implementing and supporting the Company's new Oracle system and the development of new business opportunities such as acquisitions, product distribution agreements, and the O.E.M segment of the business. Although total selling, general and administrative expenses have increased during the periods, these expenses as a percent of sales declined to 25.6% in 1998 compared to 26.0% in 1997 and 28.4% in 1996. These reductions have been accomplished - despite substantial expenditures related to starting up the Company's European operations- in part through a Company-wide focus on achieving greater productivity. In addition, increased sales have permitted the Company to achieve economies of scale through the spread of fixed costs over a greater number of units.

Research and development expenditures for 1998 were $3,244,477, a decrease of 27%, compared to $4,446,795 in 1997. This decrease primarily was due to the conversion of much of the R&D expenses in Ireland to production resources for the manufacture of the newly introduced line of guide wires. Research and development costs in 1997 grew by 76% from 1996, which as a percent of sales was 4.7%, 7.3% and 5.0% for 1998, 1997 and 1996, respectively. This major increase in 1997 was related to new product development and reflected management's decision to expand into new markets for the future growth of the Company.

These factors significantly affected income from operations in 1998 which increased to $5,171,005, up 95.9%, compared to $2,639,449 in 1997, a decrease of 38.5% from $4,291,929 in 1996. The income tax provision for 1998 was $1,687,379, an effective rate of 39.3%, compared to $944,981, or 53.2 % in 1997 and $1,277,431or 35.2% in 1996. The Company's consolidated effective tax rate in 1997 was high principally because the tax benefits of losses associated with the start-up of international operations were limited to Ireland's manufacturing tax rate of 10%. The effective tax rate improved significantly in 1998 as Ireland became profitable and their lower tax rate improved the Company's overall effective tax rate.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 1998 the Company's working capital was $15,779,725, representing a current ratio of 2.0 to 1. During 1997 the Company increased its secured bank line of credit to $10.5 million. In 1998 the Company negotiated a reduction in the interest rate and fees for its line of credit, significantly reducing the cost of this capital. The Company had $7,634,607 outstanding under its line of credit at December 31, 1998. Merit has financed leasehold improvements and equipment acquisitions through secured notes payable and capital lease arrangements with an outstanding balance of $5,197,805 at December 31, 1998. For the year ended December 31, 1998 the Company generated cash from operations in the amount of $1,674,728.

Historically, the Company has incurred significant expenses in connection with product development and introduction of new products. This was particularly true in 1998 with regard to an increase in inventory and equipment and the ramp-up of European operations. Substantial capital has also been required to finance growth in inventories and receivables in the U.S.. The Company's principal source of funding for these and other expenses has been the cash generated from operations, secured loans on equipment, bank lines of credit and sales of equity. The Company believes that its present sources of liquidity and capital are adequate for its current operation.

MARKET RISK DISCLOSURES

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

YEAR 2000

In 1996 the Company began the conversion of the principal computer software systems to a new integrated system to support future growth and improve productivity. The Company has completed a review of its business information systems with regard to Year 2000 compliance and is either replacing or correcting those computer systems that have been found to have date-related deficiencies. A new Oracle integrated business information system for the order administration, financial and manufacturing processes was implemented and completed in November 1998.

Through December 31, 1998 the Company has incurred approximately $3.5 million in costs to improve the Company's information technology systems and for Year 2000 readiness efforts. Of this amount, most represents the costs of implementing and transitioning to new computer hardware and software for its Oracle enterprise-wide business systems. Substantially all of these costs have been capitalized. The Company anticipates incurring an additional $500,000 in connection with the Year 2000 readiness efforts. The Company expects to have all Year 2000 readiness efforts completed by September 30, 1999.

The Company believes its non-IT systems and products being shipped today have been assessed and found to be Year 2000 compliant. The Company relies on third-party providers for materials and services such as telecommunications, utilities, financial services and other key services. Interruption of those materials or services due to Year 2000 issues could affect the Company's operations. The Company has completed the process of contacting its major suppliers and has determined that all major suppliers are in the process of ensuring Year 2000 compliance. However, since the Company is dependent on key third parties, there can be no guarantee that the Company's efforts will prevent a material adverse impact on its financial position, results of operations or liquidity in future periods in the event that a significant number of suppliers and/or customers experience business disruptions as a result of their lack of Year 2000 readiness.

The Company is in the process of implementing the Oracle system in its Irish facility with a planned completion date for the end of the third quarter of 1999. Both the Company's cost estimates and completion time frames could be influenced by the Company's ability to successfully identify all Year 2000 issues, the nature and amount of corrective action required, the availability and cost of trained personnel in this area and the Year 2000 success that key third parties and customers attain While these and other unforeseen factors could have a material adverse impact on the Company's financial position, results of operations or liquidity in future periods, management believes that it has implemented an effective Year 2000 compliance program that will minimize the possible negative consequences to the Company.

Throughout 1999, the Company will determine areas where contingency planning is needed. The planning efforts will include, but are not limited to, identification and mitigation of potential serious business interruptions, adjustments of inventory levels to meet customer needs, and establishing crisis response processes to address unexpected problems.

The foregoing discussion of the Company's Year 2000 readiness includes forward looking statements, including estimates of the time frames and costs for addressing the known Year 2000 issues confronting the Company, and is based upon management's current estimates, which were derived using numerous assumptions. There can be no assurance that these estimates will be achieved, and actual events and results could differ materially from those anticipated. Specific factors that might cause such material differences include, but are not limited to, the availability of personnel with required remediation skills, the ability of the Company to identify and correct or replace all relevant computer code and the success of third parties with whom the Company does business in addressing their Year 2000 issues.

Consolidated Balance Sheets

DECEMBER 31, 1998 AND 1997

| ASSETS | 1998 | 1997 |
|---|---|---|
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 851,910 | $ 976,692 |
| Trade receivables - net of allowance for uncollectible accounts: 1998 - $197,331; 1997 - $175,114 | 10,436,485 | 9,599,443 |
| Employee and related party receivables | 472,994 | 288,812 |
| Irish Development Agency grant receivable | 198,445 | 747,888 |
| Inventories | 17,785,743 | 14,535,440 |
| Prepaid expenses and other assets | 636,124 | 538,259 |
| Deferred income tax assets | 739,595 | 782,435 |
| Total current assets | 31,121,296 | 27,468,969 |
| PROPERTY AND EQUIPMENT: | | |
| Land | 1,065,985 | 1,101,544 |
| Building | 932,448 | |
| Automobiles | 89,469 | 112,633 |
| Manufacturing equipment | 13,669,599 | 10,909,529 |
| Furniture and fixtures | 7,963,835 | 4,817,738 |
| Leasehold improvements | 5,035,288 | 4,483,071 |
| Construction-in-progress | 1,182,669 | 2,747,414 |
| Total | 29,006,845 | 25,104,377 |
| Less accumulated depreciation and amortization | (12,043,130) | (9,648,746) |
| Property and equipment - net | 16,963,715 | 15,455,631 |
| OTHER ASSETS: | | |
| Intangible assets - net of accumulated amortization: 1998 - $1,014,617; 1997 - $821,641 | 2,333,456 | 2,024,050 |
| Cost in excess of the fair value of assets acquired - net of accumulated amortization: 1998 - $31,615; 1997 - $15,015 | 150,673 | 167,273 |
| Prepaid royalty - net of accumulated amortization: 1998 - $578,572; 1997 - $492,857 | 21,428 | 107,143 |
| Deposits | 74,218 | 46,612 |
| Total other assets | 2,579,775 | 2,345,078 |
| TOTAL | $ 50,664,786 | $ 45,269,678 |

(Continued)

Consolidated Balance Sheets

DECEMBER 31, 1998 AND 1997

| LIABILITIES AND STOCKHOLDERS' EQUITY | 1998 | 1997 |
|---|---|---|
| CURRENT LIABILITIES: | | |
| Line of credit | $ 7,634,607 | $ 4,624,727 |
| Current portion of long-term debt | 1,808,970 | 1,802,932 |
| Trade payables | 3,573,333 | 3,438,349 |
| Accrued expenses | 2,055,849 | 2,414,050 |
| Advances from employees | 74,090 | 81,245 |
| Income taxes payable | 194,722 | 369,695 |
| Total current liabilities | 15,341,571 | 12,730,998 |
| DEFERRED INCOME TAX LIABILITIES | 1,275,651 | 883,002 |
| LONG-TERM DEBT | 3,388,835 | 3,913,686 |
| DEFERRED CREDITS | 1,023,861 | 1,543,151 |
| Total liabilities | 21,029,918 | 19,070,837 |
| MINORITY INTEREST IN SUBSIDIARY | 548,500 | 396,692 |
| COMMITMENTS AND CONTINGENCIES (Notes 6, 10, and 11) | | |
| STOCKHOLDERS' EQUITY: | | |
| Preferred stock - 5,000,000 shares authorized as of December 31, 1998 and 1997, no shares issued | | |
| Common stock - no par value; 20,000,000 shares authorized; 7,508,914 and 7,395,091 shares issued at December 31, 1998 and 1997, respectively | 17,793,094 | 17,178,971 |
| Retained earnings | 11,564,928 | 9,113,769 |
| Accumulated other comprehensive loss | (271,654) | (490,591) |
| Total stockholders' equity | 29,086,368 | 25,802,149 |
| TOTAL | $ 50,664,786 | $ 45,269,678 |

See notes to consolidated financial statements.

(Concluded)

Consolidated Statements of Operations

FOR THE YEARS ENDED DECEMBER 31, 1998, 1997, AND 1996

| | 1998 | 1997 | 1996 |
|---|---|---|---|
| SALES | $ 68,377,357 | $ 60,579,011 | $ 50,455,766 |
| COST OF SALES | 42,433,873 | 37,766,116 | 29,319,617 |
| GROSS PROFIT | 25,943,484 | 22,812,895 | 21,136,149 |
| EXPENSES: | | | |
| Selling, general, and administrative | 17,528,002 | 15,726,651 | 14,311,049 |
| Research and development | 3,244,477 | 4,446,795 | 2,533,171 |
| Total | 20,772,479 | 20,173,446 | 16,844,220 |
| INCOME FROM OPERATIONS | 5,171,005 | 2,639,449 | 4,291,929 |
| OTHER INCOME (EXPENSE): | | | |
| Interest income 33,662 | 28,223 | 23,377 | |
| Interest expense | (826,778) | (854,859) | (707,878) |
| Miscellaneous income (expense) | (87,543) | (37,297) | 22,724 |
| Other expense - net | (880,659) | (863,933) | (661,777) |
| INCOME BEFORE INCOME TAX EXPENSE | 4,290,346 | 1,775,516 | 3,630,152 |
| INCOME TAX EXPENSE | (1,687,379) | (944,981) | (1,277,431) |
| MINORITY INTEREST IN INCOME OF SUBSIDIARY | (151,808) | (33,003) | (190,113) |
| NET INCOME | $ 2,451,159 | $ 797,532 | $ 2,162,608 |
| EARNINGS PER COMMON SHARE - | | | |
| Basic and diluted | $ .33 | $ .11 | $ .31 |
| AVERAGE COMMON SHARES - | | | |
| Basic | 7,420,224 | 7,263,253 | 6,878,165 |
| Diluted | 7,488,225 | 7,369,668 | 7,051,911 |

See notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

FOR THE YEARS ENDED DECEMBER 31, 1998, 1997, AND 1996

| | Total | Common Stock Shares | Common Stock Amount | Accumulated Other Comprehensive Loss | Retained Earnings |
|---|---|---|---|---|---|
| BALANCE, JANUARY 1, 1996 | $ 19,264,525 | 6,786,239 | $ 13,088,265 | $ 22,631 | $ 6,153,629 |
| Comprehensive income: | | | | | |
| Net income | 2,162,608 | | | | 2,162,608 |
| Foreign currency translation adjustment | (36,720) | | | (36,720) | |
| Comprehensive income | 2,125,888 | | | | |
| Tax benefit attributable to appreciation of common stock options exercised | 65,679 | | 65,679 | | |
| Issuance of common stock for cash | 309,370 | 39,996 | 309,370 | | |
| Options and warrants exercised for cash | 643,028 | 104,117 | 643,028 | | |
| Issuance of common stock under Employees Stock Purchase Plans | 78,633 | 11,938 | 78,633 | | |
| BALANCE, DECEMBER 31, 1996 | 22,487,123 | 6,942,290 | 14,184,975 | (14,089) | 8,316,237 |
| Comprehensive income: | | | | | |
| Net income | 797,532 | | | | 797,532 |
| Foreign currency translation adjustment | (476,502) | | | (476,502) | |
| Comprehensive income | 321,030 | | | | |
| Tax benefit attributable to appreciation of common stock options exercised | 222,887 | | 222,887 | | |
| Issuance of common stock for cash | 273,202 | 35,582 | 273,202 | | |
| Options and warrants exercised | 1,316,812 | 227,200 | 1,316,812 | | |
| Issuance of common stock under Employee Stock Purchase Plans | 245,129 | 42,056 | 245,129 | | |
| Stock issued in connection with UMI acquisition | 975,000 | 152,424 | 975,000 | | |
| Shares surrendered in exchange for the recording of payroll tax liabilities | (7,534) | (861) | (7,534) | | |
| Shares surrendered in exchange for the exercise of stock options | (31,500) | (3,600) | (31,500) | | |
| BALANCE, DECEMBER 31, 1997 | 25,802,149 | 7,395,091 | 17,178,971 | (490,591) | 9,113,769 |
| Comprehensive income: | | | | | |
| Net income | 2,451,159 | | | | 2,451,159 |
| Foreign currency translation adjustment | 218,937 | | | 218,937 | |
| Comprehensive income | 2,670,096 | | | | |
| Tax benefit attributable to appreciation of common stock options exercised | 33,398 | | 33,398 | | |
| Issuance of common stock for cash | 81,850 | 13,819 | 81,850 | | |
| Issuance of common stock under Employee Stock Purchase Plans | 267,549 | 52,425 | 267,549 | | |
| Options and warrants exercised | 370,914 | 64,840 | 370,914 | | |
| Shares surrendered in exchange for the exercise of stock options | (139,588) | (17,261) | (139,588) | | |
| BALANCE, DECEMBER 31, 1998 | $ 29,086,368 | 7,508,914 | $ 17,793,094 | $ (271,654) | $ 11,564,928 |

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

FOR THE YEARS ENDED DECEMBER 31, 1998, 1997, AND 1996

| | 1998 | 1997 | 1996 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net income | $ 2,451,159 | $ 797,532 | $ 2,162,608 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 2,923,484 | 2,796,425 | 2,497,850 |
| Losses on sales and abandonment of property and equipment | 46,897 | 11,245 | 6,867 |
| Amortization of deferred credits | (114,607) | (91,155) | (73,619) |
| Deferred income taxes | 435,489 | (22,951) | 162,475 |
| Tax benefit attributable to appreciation of common stock options exercised | 33,398 | 222,887 | 65,679 |
| Minority interest in income of subsidiary | 151,808 | 33,003 | 190,113 |
| Changes in operating assets and liabilities, net of effects from purchase of UMI: | | | |
| Trade receivables | (837,042) | (2,220,364) | (651,119) |
| Employee and related party receivables | (184,182) | 38,613 | 35,841 |
| Irish Development Agency grant receivable | 549,443 | (330,997) | 142,637 |
| Inventories | (3,250,303) | (79,236) | (1,695,565) |
| Prepaid expenses and other assets | (97,865) | (19,436) | (115,409) |
| Deposits and other | (27,606) | 122,565 | (122,193) |
| Trade payables | 134,984 | 872 | 381,188 |
| Accrued expenses | (358,201) | 133,378 | 526,563 |
| Advances from employees | (7,155) | (26,662) | 55,044 |
| Income taxes payable | (174,973) | 353,789 | (113,879) |
| Total adjustments | (776,431) | 921,976 | 1,292,473 |
| Net cash provided by operating activities | 1,674,728 | 1,719,508 | 3,455,081 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Capital expenditures for: | | | |
| Property and equipment | (4,138,219) | (1,046,890) | (2,736,477) |
| Intangible assets | (522,671) | (521,270) | (486,414) |
| UMI acquisition | (70,486) | | |
| Proceeds from the sale of property and equipment | 584,688 | 22,645 | 41,156 |
| Net cash used in investing activities | (4,076,202) | (1,616,001) | (3,181,735) |

(Continued)

Consolidated Statements of Cash Flows

FOR THE YEARS ENDED DECEMBER 31, 1998, 1997, AND 1996

| | 1998 | 1997 | 1996 |
|---|---|---|---|
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Net proceeds from (payments on) line of credit | $ 3,009,880 | $ 90,854 | $(1,337,666) |
| Proceeds from: | | | |
| Issuance of common stock | 580,725 | 1,835,143 | 1,031,031 |
| Long-term debt | 677,802 | 2,200,000 | |
| Principal payments on: | | | |
| Long-term debt | (2,172,753) | (1,764,343) | (1,068,415) |
| Deferred credits | (37,899) | (74,917) | (69,467) |
| Net cash provided by financing activities | 2,057,755 | 86,737 | 755,483 |
| EFFECT OF EXCHANGE RATES ON CASH | 218,937 | (476,502) | (36,720) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (124,782) | (286,258) | 992,109 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 976,692 | 1,262,950 | 270,841 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | $ 851,910 | $ 976,692 | $ 1,262,950 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION - Cash paid during the year for: | | | |
| Interest (including capitalized interest of $93,142, $109,701, and $177,133 during 1998, 1997, and 1996, respectively) | $ 995,417 | $ 782,676 | $ 761,430 |
| Income taxes | $ 1,393,465 | $ 591,192 | $ 1,163,156 |

SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:

* During 1998, 1997, and 1996, the Company entered into capital lease obligations and notes payable for $867,629, $1,270,259, and $2,522,076, respectively, for manufacturing equipment.
* In connection with the sale in 1998 of the Company's manufacturing facility in Castlerea, Ireland, the buyer assumed debt of the Company in the amount of $258,275.
* During 1997, options to purchase 861 shares of the Company's common stock were surrendered in exchange for the Company's recording of payroll tax liabilities in the amount of $7,534.
* During 1998 and 1997, 17,261 and 3,600 shares of Company common stock with a value of $139,588 and $31,500 were surrendered in exchange for the exercise of stock options.
* During 1997, the Company acquired UMI for 152,424 shares of Company restricted common stock. In connection with this acquisition, the Company recorded the following as of the acquisition date:

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

See notes to consolidated financial statements. (Concluded)

Notes to Consolidated Financial Statements

FOR THE YEARS ENDED DECEMBER 31, 1998, 1997, AND 1996

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

Long-lived Assets - Impairment of long-lived assets is determined in accordance with Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-lived Assets and of Long-lived Assets to be Disposed Of," which was adopted on January 1, 1996. There were no impairments as of December 31, 1998 or 1997.

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

| | |
|---|---|
| Building | 30 years |
| Automobiles | 4 years |
| Manufacturing equipment | 5 to 10 years |
| Furniture and fixtures | 3 to 10 years |
| Leasehold improvements | 4 to 25 years |

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

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

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

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

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

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

Comprehensive Income (Loss) - Effective January 1, 1998, the Company adopted SFAS No. 130, Reporting Comprehensive Income, and reclassified comprehensive loss for 1997 and 1996 to conform with SFAS No. 130. This statement requires the Company to display an amount representing total comprehensive income or loss for each period. Accumulated other comprehensive loss consists entirely of foreign currency translation adjustments.

## 2. ACQUISITION OF UNIVERSAL MEDICAL INSTRUMENT CORPORATION

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

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

## 3. INVENTORIES

Inventories consist of the following at December 31, 1998 and 1997:

| | 1998 | 1997 |
|---|---|---|
| Finished goods | $ 7,458,133 | $ 6,261,203 |
| Work-in-process | 1,954,696 | 2,459,081 |
| Raw materials | 8,981,007 | 6,481,714 |
| Less reserve for obsolete inventory | (608,093) | (666,558) |
| Total | $ 17,785,743 | $ 14,535,440 |

## 4. INCOME TAXES

Deferred income tax assets and liabilities at December 31, 1998 and 1997 consist of the following temporary differences and carryforward items:

| | Current | | Long-Term | |
|---|---|---|---|---|
| | 1998 | 1997 | 1998 | 1997 |
| Deferred income tax assets: | | | | |
| Allowance for uncollectible accounts receivable | $ 79,809 | $ 70,535 | | |
| Accrued compensation expense | 126,603 | 124,997 | | |
| Tax credits | 79,668 | 29,990 | $ 24,681 | |
| Inventory capitalization for tax purposes | 116,574 | 82,411 | | |
| Inventory obsolescence reserve | 210,026 | 181,729 | | |
| Net operating losses of subsidiaries | 70,000 | 256,645 | 368,690 | |
| Other | 56,915 | 36,128 | 72,713 | |
| Total deferred income tax assets | 739,595 | 782,435 | 466,084 | |

| | Current | | Long-Term | |
|---|---|---|---|---|
| | 1998 | 1997 | 1998 | 1997 |
| Deferred income tax liabilities - differences between tax basis and financial reporting basis of property and equipment | | | (1,741,735) | $ (883,002) |
| Net | $ 739,595 | $ 782,435 | $(1,275,651) | $ (883,002) |

Income tax expense for the years ended December 31, 1998, 1997, and 1996 differs from amounts computed by applying the statutory Federal rate to pretax income as follows:

| | 1998 | 1997 | 1996 |
|---|---|---|---|
| Computed Federal income tax expense at statutory rate of 35% | $ 1,501,621 | $ 621,431 | $ 1,270,553 |
| State income taxes | 186,948 | 124,878 | 231,126 |
| Creation of tax credits (133,529) | (164,319) | (61,435) | |
| Tax benefit of foreign sales corporation | (96,808) | (106,574) | (85,614) |
| Losses of subsidiaries recorded at foreign rates | 183,622 | 496,685 | 289,594 |
| Change in deferred income tax asset valuation allowance | | | (353,710) |
| Other - including the effect of graduated rates | 45,525 | (27,120) | (13,083) |
| Total income tax expense | $ 1,687,379 | $ 944,981 | $ 1,277,431 |
| Consisting of: | | | |
| Current | $ 1,251,890 | $ 967,932 | $ 1,114,956 |
| Deferred | 435,489 | (22,951) | 162,475 |
| Total | $ 1,687,379 | $ 944,981 | $ 1,277,431 |

5. LINE OF CREDIT AND LONG-TERM DEBT

Line of Credit - As of December 31, 1998, the Company had a line of credit for $10,500,000. The credit line is collateralized by trade receivables, inventories, property and equipment, and intangible assets and accrues interest at the bank's prime rate. Under the terms of the line, among other things, the Company is required to maintain positive earnings for each fiscal quarter during the term of the loan, maintain a ratio of total liabilities to tangible net worth not to exceed 1.1 to 1.0, maintain a ratio of current assets to current liabilities of at least 1.5 to 1.0, maintain minimum working capital of $9,000,000, and is restricted from paying dividends to shareholders. As of December 31, 1998 and 1997, the Company owed $7,634,607 and $4,624,727, respectively, under this line of credit.

Long-term Debt - Long-term debt consists of the following at December 31, 1998 and 1997:

| | 1998 | 1997 |
|---|---|---|
| Notes payable to financial institutions; payable in monthly installments through 2004, including interest at rates ranging from 6.5% to 9.34%; collateralized by equipment | $4,699,219 | $4,777,090 |
| Capital lease obligations (see Note 6) | 498,586 | 939,528 |
| Total | 5,197,805 | 5,716,618 |
| Less current portion | 1,808,970 | 1,802,932 |
| Long-term portion | $3,388,835 | $3,913,686 |

Scheduled maturities of long-term debt at December 31, 1998 are as follows:

| Year ending December 31: | |
|---|---|
| 1999 | $1,808,970 |
| 2000 | 1,731,877 |
| 2001 | 855,406 |
| 2002 | 433,835 |
| 2003 | 293,723 |
| Thereafter | 73,994 |
| Total | $5,197,805 |

6. COMMITMENTS AND CONTINGENCIES

Leases - The Company has noncancelable operating lease agreements for off-site office and production facilities and equipment. The leases for the off-site office and production facilities are for 5 years and have renewal options of one to five years. The Company subleased these facilities during 1997 and 1996. Total rental income from these subleases for the years ended December 31, 1997 and 1996 was approximately $97,000 and $153,000, respectively. Total rental expense on these operating leases and on the Company's new manufacturing and office building (see below) for the years ended December 31, 1998, 1997, and 1996 approximated $3,293,000, $2,783,000, and $2,448,000, respectively.

In June 1993, the Company entered into a 25 year lease agreement with a developer for a new manufacturing and office building. Under the agreement, the Company was granted an option to purchase the building at fair market value after 10 years and, if not exercised, after 25 years. In connection with this lease agreement, the Company in 1993 sold to the developer 10 acres of land on which the building was constructed. The $166,136 gain on the sale of the land has been recorded as a deferred credit and is being amortized as a reduction of rent expense over ten years. During 1998, 1997, and 1996, $16,614, $16,614, and $16,614, respectively, of this deferred credit was amortized as a reduction of rent expense. In connection with the lease agreement, the Company issued to the developer warrants to purchase 155,461 shares of the Company's common stock at $4.95 per share subject to carrying cost increases of 3% per year ($5.41 as of December 31, 1998). The warrants expire in 2005.

The Company leases certain manufacturing and office equipment under long-term capital lease agreements. Capital leases are collateralized by equipment approximating $967,000 and $1,607,000 with accumulated amortization of approximately $200,000 and $296,000 as of December 31, 1998 and 1997, respectively.

The future minimum lease payments, together with the present value of the net minimum lease payments as of December 31, 1998, are as follows:

| | Operating Leases | Capital Leases |
|---|---|---|
| Year ending December 31: | | |
| 1999 | $ 3,028,407 | $ 198,377 |
| 2000 | 2,517,374 | 183,845 |
| 2001 | 1,847,510 | 179,202 |
| 2002 | 1,634,483 | |
| 2003 | 1,479,152 | |
| Thereafter | 22,870,967 | |
| Total minimum lease payments | $ 33,377,893 | 561,424 |
| Less amount representing interest and executory costs | | (62,838) |
| Present value of net minimum lease payments (see Note 5) | | $ 498,586 |

Irish Government Development Agency Grants - Through December 31, 1998, the Company has entered into several grant agreements with the Irish Government Development Agency of which $198,445 and $747,888 remained in receivables at December 31, 1998 and 1997, respectively. The grant agreements reimburse the Company for a portion of the cost of property and equipment purchased in Ireland, specific research and development projects in Ireland, and costs of hiring and training employees located in Ireland. The Company has recorded the grants related to research and development projects and costs of hiring and training employees as a reduction of operating expenses in 1998, 1997, and 1996 in the amounts of $164,423, $146,476, and $230,654, respectively. Grants related to the acquisition of property and equipment purchased in Ireland are recorded as deferred credits and are amortized to income over lives corresponding to the depreciable lives of such property. During 1998, 1997, and 1996, $97,993, $74,541, and $57,005, respectively, of the deferred credit was amortized as a reduction of operating expenses.

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

Litigation - Bennett vs. Merit Medical Systems, Inc., et. - On February 4, 1994, an action was filed in the Third District Court of Salt Lake County, State of Utah by an individual claiming to be a shareholder of the Company and naming the Company, Fred P. Lampropoulos, President of the Company, and Sentir, a company founded by Mr. Lampropoulos, as defendants. The claims against the Company were subsequently dismissed. The complaint also asserted claims on behalf of the Company (derivative claims) against Mr. Lampropoulos and Sentir, alleging breach of fiduciary duty and the improper taking of a corporate opportunity in connection with the formation of Sentir. The relief sought in connection with the derivative claims included disgorgement, costs, and attorneys' fees. The Company appointed an independent Special Litigation Committee of the Board to determine the Company's course of action on the derivative claims which engaged counsel separate from the Company's usual counsel for purposes of the derivative claims. On November 7, 1995, pursuant to a Motion filed on behalf of the Company's Special Litigation Committee, the Court made a minute entry granting the Motion to Dismiss the derivative claims, without prejudice. On November 4, 1996, the Special Litigation Committee delivered its report essentially concluding that the derivative claims were not well founded. Nevertheless, on November 22, 1996, the plaintiff refiled only the derivative claims in the Third District Court of Salt Lake County, State of Utah and on January 22, 1997, a Motion to dismiss was filed on behalf of the Company, seeking to terminate the litigation and asserting that the report of the Special Litigation Committee is entitled to deference under the law. The motion to dismiss was granted by the court, and judgment was entered on September 21, 1998. The plaintiff has appealed the judgment and the appeal is still pending.

## 7. EMPLOYEE STOCK PURCHASE PLAN AND STOCK OPTIONS AND WARRANTS

The Company offers to its employees an Employee Stock Purchase Plan which allows the employee on a quarterly basis to purchase shares of the Company's common stock at the lesser of 85% of the market value on the offering commencement date or offering termination date. The total number of shares available to employees to purchase under this plan is 250,000 of which 106,419 have been purchased as of December 31, 1998.

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

Changes in stock options and warrants for the years ended December 31, 1998, 1997, and 1996 are as follows:

| | Options | | Warrants | |
|---|---|---|---|---|
| | Shares | Weighted Average or Range of Exercise Price | Shares | Weighted Average or Range of Exercise Price |
| 1998: | | | | |
| Granted | 203,500 | $ 6.41 | | |
| Exercised | 64,840 | 5.80 | | |
| Forfeited/expired | 47,990 | 6.41 | | |
| Outstanding at December 31 | 1,147,770 | 7.02 | 155,461 | $ 5.41 |
| Exercisable | 486,230 | 7.45 | 155,461 | 5.41 |
| Weighted average fair value of options and warrants granted during year | | $ 3.14 | | |
| Weighted average fair value of shares issued under Employee Stock Purchase Plan | | $ 0.90 | | |
| 1997: | | | | |
| Granted | 522,700 | $ 6.65 | | |
| Exercised | 227,200 | 5.80 | | |
| Forfeited/expired | 43,100 | 7.19 | 60,000 | $ 7.65 |
| Outstanding at December 31 | 1,057,100 | 7.04 | 155,461 | 5.25 |
| Exercisable | 315,100 | 7.48 | 155,461 | 5.25 |
| Weighted average fair value of options and warrants granted during year | | $ 3.33 | | |
| Weighted average fair value of shares issued under Employee Stock Purchase Plan | | $ 1.03 | | |
| 1996: | | | | |
| Granted | 340,000 | $ 8.19 | 517 | $ 6.83 |
| Exercised | 84,850 | 6.08 | 19,267 | 6.65 |
| Forfeited/expired | 43,750 | 6.02 | | |
| Outstanding at December 31 | 804,700 | 6.96 | 215,461 | 5.85 |
| Exercisable | 364,600 | 6.64 | 215,461 | 5.85 |
| Weighted average fair value of options and warrants granted during year | | $ 4.50 | | |
| Weighted average fair value of shares issued under Employee Stock Purchase Plan | | $ 1.16 | | |

The following table summarizes information about stock options and warrants outstanding at December 31, 1998:

| Options and Warrants Outstanding | | | | Options and Warrants Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Prices | Number Outstanding | Weighted Average Remaining Contractual Life (in years) | Weighted Average Exercise Price | Number Exercisable | Weighted Average Exercise Price |
| Options: | | | | | |
| $4.87 to $7.25 | 635,770 | 3.29 | $ 6.13 | 213,430 | $ 6.25 |
| $7.50 to $10.63 | 512,000 | 3.21 | 8.13 | 272,800 | 8.40 |
| Warrants: | | | | | |
| $5.41 | 155,461 | 6.0 | $ 5.41 | 155,461 | $5.41 |

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

| | 1998 | 1997 | 1996 |
|---|---|---|---|
| Net income: | | | |
| As reported | $ 2,451,159 | $ 797,532 | $ 2,162,608 |
| Pro forma | 1,840,182 | 385,340 | 1,753,765 |
| Net income per common (both basic and diluted) share: | | | |
| As reported | $ 0.33 | $ 0.11 | $ 0.31 |
| Pro forma | 0.25 | 0.05 | 0.25 |

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 1998, 1997, and 1996, dividend yield of 0%; expected volatility of 55.2%, 57.5%, and 55% for 1998, 1997, and 1996, respectively; risk-free interest rates ranging from 4.58% to 7.36%; and expected lives ranging from 2.8 to 4.5 years.

8. SEGMENT REPORTING AND FOREIGN OPERATIONS

During the years ended December 31, 1998, 1997, and 1996, the Company had sales of approximately $15,198,000, $13,722,000, and $11,900,000 or approximately 22%, 23%, and 24%, respectively, of total sales primarily in Japan, Germany, France, and United Kingdom.

The Company operates primarily in one segment in which it develops, manufactures, and markets disposable medical products, principally for use in the diagnosis and treatment of cardiovascular disease. Major operations outside the United States include a leased manufacturing and distribution facility in Ireland and sales subsidiaries in Europe. The following is a summary of the Company's foreign operations by geographic area for fiscal years 1998, 1997, and 1996:

| | Sales to Unaffiliated Customers | Transfers Between Geographic Areas | Revenue | Net Income (Loss) | Identifiable Assets |
|---|---|---|---|---|---|
| Fiscal year ended December 31, 1998: | | | | | |
| United States, Canada, and international distributors | $ 60,407,019 | $ 1,386,073 | $ 61,793,092 | $ 3,373,280 | $ 41,477,669 |
| Europe direct | 7,970,338 | 2,546,099 | 10,516,437 | (593,677) | 9,117,117 |
| Eliminations | | (3,932,172) | (3,932,172) | (328,444) | |
| Consolidated | $ 68,377,357 | None | $ 68,377,357 | $ 2,451,159 | $ 50,594,786 |
| Fiscal year ended December 31, 1997: | | | | | |
| United States, Canada, and international distributors | $ 54,226,210 | $ 860,482 | $ 55,086,692 | $ 2,774,516 | $ 36,584,122 |
| Europe direct | 6,352,801 | 838,219 | 7,191,020 | (2,110,415) | 8,685,556 |
| Eliminations | | (1,698,701) | (1,698,701) | 133,431 | |
| Consolidated | $ 60,579,011 | None | $ 60,579,011 | $ 797,532 | $ 45,269,678 |
| Fiscal year ended December 31, 1996: | | | | | |
| United States, Canada, and international distributors | $ 45,106,815 | $ 1,212,962 | $ 46,319,777 | $ 3,315,534 | $ 34,013,025 |
| Europe direct | 5,348,951 | 89,081 | 5,438,032 | (1,029,204) | 7,705,528 |
| Eliminations | | (1,302,043) | (1,302,043) | (123,722) | |
| Consolidated | $ 50,455,766 | None | $ 50,455,766 | $ 2,162,608 | $ 41,718,553 |

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

9. RELATED PARTY TRANSACTIONS

Receivables from employees at December 31, 1998 and 1997 totaled approximately $384,000 and $245,000, respectively, (including approximately $249,000 and $120,000, respectively, from officers of the Company).

10. ROYALTY AGREEMENT

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

Pursuant to the settlement, the Company entered into a license agreement with the Licensor, whereby the Licensor granted to the Company a nonexclusive right and license to manufacture and sell products which are subject to the patents issued to the Licensor. For the rights and license granted under the agreement, the Company paid the Licensor a nonrefundable prepaid royalty in the amount of $600,000. The royalty was paid upon execution of the agreement and represents a prepaid royalty covering the first seven years of the agreement. In addition to the prepaid royalty, the Company agreed to pay the Licensor a continuing royalty beginning January 1, 1992 of 5.75% of sales (which will not exceed $450,000 for any calendar year) made in the United States, of products covered by the license agreement. Royalties of $450,000 were paid or accrued in each of the years ended December 31, 1998, 1997, and 1996.

Notes to Consolidated Financial Statements

11. EMPLOYEE BENEFIT PLAN

The Company has a contributory 401(k) savings and profit sharing plan (the Plan) covering all full-time employees who are at least 21 years of age and have a minimum of one year of service to the Company. The Company may contribute at its discretion matching contributions up to 2.25% of the employees' compensation. Additional employer contributions are determined at the discretion of the Board of Directors. Contributions made by the Company to the Plan for the years ended December 31, 1998, 1997, and 1996 totaled approximately $18,000, $223,000, and $227,000, respectively.

The Plan purchased unissued shares of the Company's common stock at market value during each of the three years ended December 31, 1998 as follows:

| | Shares | Market Value |
|---|---|---|
| Years ended December 31: | | |
| 1998 | 13,819 | $ 81,850 |
| 1997 | 35,582 | 273,202 |
| 1996 | 39,996 | 309,370 |

12. RECENTLY ISSUED FINANCIAL ACCOUNTING STANDARDS

In June 1998 the Financial Accounting Standards Board (FASB) issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, which establishes accounting and reporting standards for derivative instruments and hedging activities. SFAS No. 133 requires that an enterprise recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. SFAS No. 133 is effective for fiscal years beginning after June 15, 1999. Management believes the adoption of SFAS No. 133 will not have a material impact on the Company's financial position or results of operations.

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Merit Medical Systems, Inc. and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Merit Medical Systems, Inc. and subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998 in conformity with generally accepted accounting principles.

March 16, 1999

EXECUTIVE OFFICERS

Fred P. Lampropoulos
Chairman, President/Chief Executive Officer

Kent W. Stanger
Secretary-Treasurer, Chief Financial Officer

Leigh Weintraub
Chief Operating Officer

Brian L. Ferrand
Vice President, Sales

BOARD OF DIRECTORS

Fred P. Lampropoulos
Chairman, President/Chief Executive Officer

Kent W. Stanger
Secretary-Treasurer, Chief Financial Officer

Rex C. Bean, Private Investor
Ogden, Utah

Richard W. Edelman, Senior Vice President
Southwest Securities
Dallas, Texas

James J. Ellis, Managing Partner
Ellis/Rosier & Associates
Dallas, Texas

Michael E. Stillabower, M.D.
Chief, Cardiology, Christiana Care Health Systems;
Member, Cardiology Consultants PA
Wilmington, Delaware

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(801) 253-1600

INDEPENDENT ACCOUNTANTS
Deloitte & Touche LLP
Salt Lake City, Utah

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

FORM 10-K

Merit Medical Systems, Inc. filed an annual report on Form 10-K with the Securities and Exchange Commission for the fiscal year ended December 31, 1998. A copy may be obtained by written request from Kent W. Stanger, Secretary, at the Company's offices.

ANNUAL MEETING
All shareholders are invited to attend our Annual Meeting on Wednesday, May 26, 1999 at 3:00 p.m. at the Company's corporate offices in South Jordan, Utah.

STOCK TRANSFER AGENT/REGISTRAR
Zions First National Bank
Stock Transfer Department
P. O. Box 30880
Salt Lake City, Utah 84130

PRIMARY MARKET MAKERS

| | |
|---|---|
| Herzog, Heine, Geduld, Inc. | Wien Securities Corp. |
| Piper Jaffray Cos., Inc. | Wilson-Davis & Co., Inc. |
| Knight Securities L.P. | Olsen Payne & Company |
| Sherwood Securities, Inc. | Ernst & Company |
| Mayer & Schweitzer, Inc. | The Brass Utility, L.L.C. |
| Dain Rauscher, Inc. | Island System Corporation |
| Instinet Corporation | |

MARKET INFORMATION
The Company's common stock is traded on the NASDAQ National Market System under the symbol "MMSI." As of December 31, 1998, there were 7,508,914 shares of common stock outstanding. The following chart sets forth the high and low closing sale prices for the Company's common stock for the last two years:

| | High | Low |
|---|---|---|
| 1998 | | |
| First Quarter | $7.63 | $5.50 |
| Second Quarter | 9.13 | 6.25 |
| Third Quarter | 9.00 | 5.50 |
| Fourth Quarter | 9.00 | 7.00 |
| | | |
| 1997 | | |
| First Quarter | $10.25 | $7.25 |
| Second Quarter | 8.25 | 6.63 |
| Third Quarter | 7.63 | 6.50 |
| Fourth Quarter | 8.75 | 5.50 |

As of March 27, 1999, the company had approximately 300 shareholders of record, not including shareholders whose shares are held in securities position listings.

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

INVESTOR RELATIONS CONTACT
Nancy Schultz, Director, Corporate Communications
(801) 253-1600

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

DISCLOSURE REGARDING FORWARD -LOOKING STATEMENTS

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

Exhibit 23.1 Consent of Independent Public Accountants

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement Nos. 33-48227, 33-46964, and 33-10509 of Merit Medical Systems, Inc. on Form S-8 of our report dated March 16, 1999, incorporated by reference in this Annual Report on Form 10-K of Merit Medical Systems, Inc. for the year ended December 31, 1998

DELOITTE & TOUCHE LLP

Sale Lake City, Utah
March 30, 1999

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM MERT MEDICAL SYSTEMS, INC.'S CONSOLIDATED BALANCE SHEET AND INCOME STATEMENT FOR THE TWELVE MONTH PERIOD ENDING DECEMBER 31, 1998 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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MERIT MEDICAL SYSTEMS, INC.
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12-MOS
DEC-31-1998
JAN-01-1998
DEC-31-1998
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