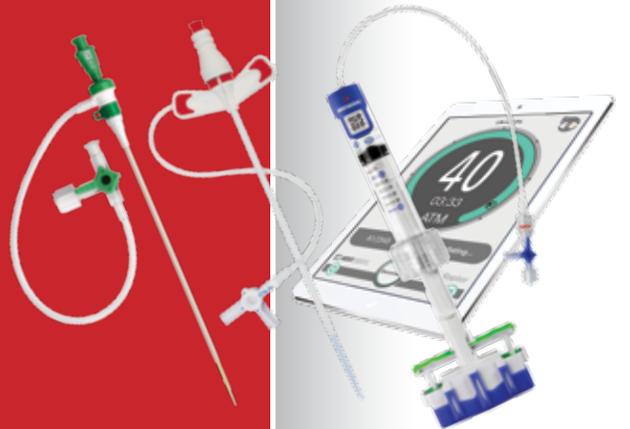




2014 ANNUAL REPORT





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A MESSAGE FROM THE CHAIRMAN & CEO

DEAR SHAREHOLDERS,

2014 was another year of growth, improvement and opportunity for Merit. Although we started the year a bit slower than anticipated, our growth accelerated as our programs and initiatives started to take hold.

During 2014, we achieved record revenues of \$509.7 million, up 14% overall, with core business up 12%. Our gross margins improved as we implemented programs to control expenses, which helped to improve overall profitability.

Throughout the year, we improved our manufacturing performance through lean principles and new automation. We also plan to consolidate another facility into our South Jordan, Utah campus by the end of 2015.

We plan to continue disciplined investment in research and development by focusing on advanced, high-margin products and enhancing existing portfolios and services.

For many years we have produced devices in Mexico through a third-party vendor. We have now leased new facilities in Mexico and plan to transition the contract manufacturing into new Merit facilities starting in the third quarter of 2015. We plan to employ approximately 500 new employees there over the next three years, without eliminating jobs in our U.S. facilities.

Recently we released, for the first time, a three-year plan that incorporates our consolidations, new facilities and plans for growth and profitability. This plan plainly states our goals and objectives to maximize the potential of the company and the substantial investments we have made over the last several years.

We held our first Investor Day at Merit headquarters. This event helped us to showcase our facilities, products and capabilities to investors and analysts that have an interest in the company. The Investor Day presentation is available for viewing on our website at www.merit.com.

We look forward to reporting our progress and appreciate the patience and foresight of our shareholders. Vision, growth, and improved profitability are our themes as we work to improve shareholder value.

Sincerely,

Fred P. Lampropoulos
Chairman and CEO

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2014,

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: **Common Stock, No Par Value**, registered on the NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant, on June 30, 2014, which is the last day of the registrant's most recently completed second fiscal quarter (based upon the closing sale price of the registrant's common stock on the NASDAQ National Market System on June 30, 2014), was approximately \$658,573,016. Shares of common stock held by each officer and director of the registrant and by each person who may be deemed to be an affiliate have been excluded.

As of March 2, 2015, the registrant had 43,632,232 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following document are incorporated by reference in Part III of this Report: the registrant's definitive proxy statement relating to the Annual Meeting of Shareholders scheduled for May 21, 2015.

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PART I

Unless otherwise indicated in this report, “Merit,” “we,” “us,” “our,” and similar terms refer to Merit Medical Systems, Inc. and our consolidated subsidiaries.

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This report includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). All statements in this report, other than statements of historical fact, are “forward-looking statements” for purposes of these provisions, including any projections of earnings, revenues or other financial items, any statements of the plans and objectives of our management for future operations, any statements concerning proposed new products or services, any statements regarding the integration, development or commercialization of the business or any assets acquired from other parties, any statements regarding future economic conditions or performance, and any statements of assumptions underlying any of the foregoing. All forward-looking statements included in this report are made as of the date hereof and are based on information available to us as of such date. We assume no obligation to update any forward-looking statement. In some cases, forward-looking statements can be identified by the use of terminology such as “may,” “will,” “expects,” “plans,” “anticipates,” “intends,” “believes,” “estimates,” “potential,” or “continue,” or the negative thereof or other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements contained herein are reasonable, there can be no assurance that such expectations or any of the forward-looking statements will prove to be correct, and actual results will likely differ, and could differ materially, from those projected or assumed in the forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to inherent risks and uncertainties, including risks relating to possible infringement of our technology or the assertion that our technology infringes the rights of other parties; protection of our proprietary technology; risks relating to product recalls and product liability claims; potential restrictions on our liquidity or our ability to operate our business by our current debt agreements; potential for significant adverse changes in, or our failure to comply with governing regulations; international and national economic conditions adversely affecting business and results of operations; greater governmental scrutiny and increasing regulation of the medical device industry; termination or interruption of relationships with our suppliers or failure of such suppliers to perform; expenditures relating to research, development, testing and regulatory approval or clearance of our products and the risk that such products may not be developed successfully or approved for commercial use; laws targeting fraud and abuse in the healthcare industry; the potential imposition of fines, penalties, or other adverse consequences; employees or agents violating the U.S. Foreign Corrupt Practices Act or other laws or regulations; healthcare reform legislation affecting our financial results and its effects on our business, operations or financial condition; modification or limitation of governmental or private insurance reimbursement policies; fluctuations in foreign currency exchange rates; increases in the prices of commodity components or loss of supply; our potential inability to successfully manage growth through acquisitions, including the inability to commercialize technology acquired through completed, proposed, or future acquisitions; our need to generate sufficient cash flow to fund our debt obligations, capital expenditures, and ongoing operations; concentration of our revenues among a few products and procedures; development of new products and technology that could render our existing products obsolete; volatility in the market price of our common stock (the “Common Stock”); disruption of critical information systems or material breaches in the security of our systems; changes in key personnel; fluctuations in our effective tax rate; work stoppage or transportation risks; failures to comply with applicable environmental laws; manufacturing facilities may be negatively impacted by certain factors, including severe weather conditions and natural disasters; and other factors referenced in our press releases and in our reports filed with the Securities and Exchange Commission (the “SEC”). All subsequent forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. Actual results will differ, and may differ materially, from anticipated results. Financial estimates are subject to change and are not intended to be relied upon as predictions of future operating results, and we assume no obligation to update or disclose revisions to those estimates. Additional factors that may have a direct bearing on our operating results are described under Item 1A “Risk Factors” beginning on page 19.

Item 1. Business.

GENERAL

Merit Medical Systems, Inc. is a worldwide designer, developer, manufacturer and marketer of medical devices used in a vast array of interventional and diagnostic medical procedures. Our mission is to provide innovative high-quality products to physicians and healthcare professionals to enhance patient care and enable them to perform procedures safely and effectively.

Our operations are divided into the following principal markets: diagnostic and interventional cardiology, interventional radiology, interventional gastroenterology, interventional pulmonology, thoracic surgery, interventional nephrology, vascular surgery, oncology, electrophysiology, cardiac rhythm management and pain management.

We believe we have been able to introduce new products and capture significant market share because of our expertise in product design, our proprietary technology and our skills in injection and insert molding.

Merit was organized in July 1987 as a Utah corporation. We also conduct our operations through a number of domestic and foreign subsidiaries. Our principal offices are located at 1600 West Merit Parkway, South Jordan, Utah, 84095, and our telephone number is (801) 253-1600. See Item 2. "Properties." We maintain an Internet website at www.merit.com.

PRODUCTS

We design, develop, manufacture and market innovative medical products that offer a high level of quality, value and safety to our customers, as well as the patients they serve. We have devoted our attention to four primary areas: diagnostic and interventional cardiology, interventional radiology, interventional gastroenterology and interventional pulmonology. Our products are also used in other clinical areas such as thoracic surgery, interventional nephrology, vascular surgery, oncology, electrophysiology, cardiac rhythm management and pain management.

The success of our products is enhanced by the extensive experience of our management team in the healthcare industry, our experienced direct sales force and distributors, our ability to combine and customize devices, kits, trays and procedural packs at the request of our customers, and our dedication to offering facility-unique solutions in the markets we serve worldwide.

Cardiology and Radiology Products

Interventional cardiology and interventional radiology are specialty disciplines that use many common visualization techniques and therapeutic approaches to treat vascular disease. These shared techniques give us the opportunity to gain product line efficiencies by serving two distinct therapeutic needs with very similar product platforms. We recognize the unique demands of the two disciplines and work to provide very specific products to serve the unique product needs of physicians practicing in these fields.

Interventional cardiology is a branch of the medical specialty of cardiology that deals specifically with the catheter-based diagnosis and treatment of heart diseases. A large number of procedures that can be performed by catheterization involve the insertion of a sheath into the femoral, radial, or brachial artery. Fluoroscopy (real-time moving X-ray images) and computed tomography ("CT") or three-dimensional computer generated images are most often used to visualize the vessels and chambers of the heart during these diagnostic and interventional procedures. Percutaneous coronary interventions ("PCI") are used to treat coronary atherosclerosis and the resulting narrowing of the arteries of the heart.

Interventional radiology is related to the minimally invasive treatment of disease in peripheral vessels and organs of the body. Percutaneous peripheral interventions ("PPI") are used to treat peripheral vascular disease conditions outside the heart.

Vascular Access Products and Accessories. We offer a broad line of devices used to gain and maintain vascular access while protecting the clinician from accidental cuts and needle sticks during procedures. These effective and useful devices and kits include the Futura® Safety Scalpel and an improved line of angiography needles such as the Merit Advance® and the SecureLoc™ Safety Introducer Needle. In addition, we offer an extensive line of sheath introducers (Prelude®) and mini access kits (MAK™ and S-MAK™), which are designed to provide clinicians with smooth, less traumatic, and convenient access to the patient's vasculature. In 2014, we introduced the PreludeEASE™ Hydrophilic Sheath Introducer. The PreludeEASE is designed to provide access to the radial artery while minimizing the potential for spasm with a hydrophilic coating that extends to the tip of the sheath.

In an effort to provide a more complete offering for radial access procedures, we offer the Rad Board®, Rad Board Xtra™, Rad Trac™, and Rad Rest® devices. The Rad Board is designed to provide a larger work space for physicians and an area for patients to rest their arms during radial procedures and has a section of lead-free Xenolite embedded in the Rad Board to help reduce scatter radiation exposure. The Rad Board Xtra is designed to work in conjunction with the Rad Board by extending the usable work space and allowing for a 90-degree perpendicular extension of the arm for physicians who prefer to perform procedures at a 90-degree angle. The Rad Trac is also designed to be used with the Rad Board and facilitates placement and removal of the Rad Board with the patient still on the table. The Rad Rest is a disposable, single-use product designed to stabilize the arm by ergonomically supporting the elbow, forearm and wrist during radial procedures.

Safety and Waste Management Systems. We offer a variety of safety-related products and kits. Our ShortStop® and ShortStop Advantage® Temporary Sharps Holders address the potential safety issues associated with accidental needle sticks. Our extensive line of color-coded Medallion® Syringes and the PAL™ Pen and Label Medication Labeling System comply with the latest patient safety initiatives of The Joint Commission (formerly known as “JCAHO”) and are designed to help minimize mix-ups in administering medication. We also offer waste management products to help avoid accidental exposure to contaminated fluids. These include our Occupational Safety and Health Administration (“OSHA”)-compliant waste disposal basins: the BackStop®, BackStop+™, MiniStop®, MiniStop+™, and DugOut®. These products have been designed to complement other Merit devices and are included in many of our kits and procedure trays in order to make the clinical setting safer for both clinicians and the patients.

Hemostasis Management Devices. Catheterization for diagnostic and interventional cardiology procedures generally take one of two approaches, femoral or radial. We offer products to assist clinicians in obtaining and maintaining hemostasis following arterial catheterization by either approach. For hemostasis of the femoral artery, we offer the Safeguard® Pressure Assisted Device. For hemostasis of the radial artery, we offer the Safeguard Radial™. These products are designed to provide comfort to patients and convenience to clinicians with an easy-to-use, adhesive band that delivers adjustable compression to the puncture site via an air inflatable bulb with a standard Luer lock syringe.

We offer the Clo-Sur PLUS P.A.D™, which is utilized in the local management of bleeding wounds and the creation of a barrier to bacterial penetration. Non-invasive devices, including topically applied hemostatic dressings, are used primarily in diagnostic procedures; however, radial access sites use compression devices in both diagnostic and interventional procedures. As a result, we have developed and offer two independent, highly differentiated radial compression systems, the Finale® Compression Device and the RADstat® Radial Artery Compression Device.

Guide Wires and Accessories. Our diagnostic guide wires are used to traverse vascular anatomy and aid in placing catheters and other devices. Our pre-coated, high performance InQwire® Diagnostic Guide Wires are lubricious and are available in a wide range of configurations to meet clinicians' diagnostic needs. These wires provide enhanced maneuverability through tortuous anatomy. The Merit Laureate® Hydrophilic Guide Wire has a consistent, lubricious coating intended to promote rapid catheter exchanges and minimize friction. The Merit Laureate was designed with one-to-one torque to reduce wire whipping. We also offer the BowTie™ Guide Wire Insertion Device, which is used to facilitate alignment of the proximal end of a micro guide wire into the tip of a device such as a dilator, introducer, or catheter. The BowTie has two funneled ends and a tear-away slit for easy removal. We also offer a line of torque devices (SeaDragon™ and H2O Torq™), which are guide wire steering tools

that can be used on both standard and hydrophilic guide wires in both large and small diameters and are often included as a component in our angioplasty packs.

Diagnostic Catheters. We offer diagnostic catheters for use during both cardiology and radiology angiographic procedures. Our diagnostic catheters include our Impress® line of peripheral catheters and the Performa® line of cardiology catheters. These catheters offer interventional radiologists and cardiologists superior performance during a variety of angiography procedures. During 2013, we introduced the MIV™ Radial Ventriculogram Pigtail Catheter to address the difficulty in accessing the left ventricle from the radial artery when using standard femoral approach catheters. MIV Radial Catheters are designed to angle toward the left cusp from the radial approach, facilitating easier insertion into the ventricle.

Hemostasis Valves. We have developed a broad line of technically sophisticated, clinically acclaimed, hemostasis valves, MAP™ Merit Angioplasty Packs and angioplasty accessories. Hemostasis valves connect to catheters and allow passage of additional guide wires, balloon catheters and other devices into the vasculature, while reducing the amount of blood loss during the procedures. During 2014, we launched the PhD™ Hemostasis Valve in multiple countries. The PhD features both a standard primary compression seal, as well as a secondary push-and-release bleedback seal. The two seals allow interventional physicians to maintain and manipulate interventional devices with minimal blood loss. Our hemostasis valve line includes the Honor®, AccessPLUS™, Access-9™, DoublePlay™, MBA™, PhD and the Passage®.

Inflation Devices. During PCI and PPI procedures, balloons and/or stents are placed within the vasculature. The balloons must be carefully placed, inflated, and deflated within the vessel in order to achieve optimal results without injury to the patient. For more than two decades, we have offered an extensive, innovative line of inflation devices that accurately measure pressures during balloon and stent deployment. The basixTOUCH™ Inflation Syringe offers clinicians one-handed preparation and priming for faster preparation time. The Blue Diamond™ Digital Inflation Device features an angled gauge for better viewing. Additionally, our IntelliSystem® and Monarch® Inflation Devices (state-of-the-art digital inflation systems), as well as the BasixCOMPAK™ Inflation Syringe, offer clinicians a wide range of features and prices.

Drainage Catheters and Accessories. We have a broad line of catheters for nephrostomy, abscess, biliary and other drainage procedures. The ReSolve® Locking Drainage Catheter's unique, convenient locking mechanism is appreciated by clinicians and patients who comment on the enhanced comfort that the catheter provides. During 2014, we introduced the ReSolve® Biliary Drainage Catheter with a hydrophilic coating. We also offer a range of catheter fixation devices, including the Revolution™ Catheter Securement Device, which was designed to save time, enhance patient comfort and improve cost-effectiveness. We also provide a wide selection of accessories that complement our drainage catheters, including tubing sets and drainage bags. For non-vascular applications, we offer mini access kits (MAK-NV™) designed for easy visualization and quick access into the drainage area. For enhanced visibility, the kits feature an echo-enhanced needle and radiopaque marker tip on the introducer.

Paracentesis, Thoracentesis and Pericardiocentesis Catheters. Paracentesis is a procedure to remove fluid that has accumulated in the abdominal cavity (peritoneal fluid). Our One-Step™ Drainage Catheter, Safety Paracentesis Procedure Tray (“SPPT”) and Thoracentesis and Paracentesis Set (“TAPS”) are designed to provide clinicians with a safe, convenient and cost-effective method for removing this fluid accumulation. Thoracentesis is a procedure to remove fluid that has accumulated in the pleural space. Our One-Step™ product line includes a valved version of the device. The Valved One-Step™ Centesis Catheter and TAPS may also be used to remove excess fluid in the pleural space during a thoracentesis. Pericardiocentesis is a procedure in which fluid is aspirated from the pericardial sac (the sac enveloping the heart). Our pericardiocentesis kit is designed as an organized, ready-to-use, convenient tray to assist the clinician in draining fluid quickly from the pericardial sac.

Thrombosis Products. We offer an extensive line of products designed to treat clots that block the flow of blood in veins and arteries. Our therapeutic thrombolytic infusion systems include the Fountain® Infusion System and the Mistique® Infusion Catheter. These catheters are used to treat thrombus (blood clot) formation in the peripheral vessels of the body, including native dialysis fistula and synthetic grafts. A new low-profile aspiration catheter, the ASAP LP™ has been added to the ASAP® line of Aspiration Catheters, giving clinicians two options for the safe and efficient removal of fresh, soft emboli and thrombi from the vessels of the arterial system.

Multipurpose Microcatheters. We offer specialty catheters designed for intravascular use, including peripheral and coronary vasculature. Once the subselective region has been accessed, a microcatheter can be used for the controlled and selective infusion of diagnostic, embolic microspheres or particles, or therapeutic agents into vessels. The Merit Maestro® microcatheter has a swan neck design to seat catheters in the vessel and to reduce the recoiling effect of the embolic agent as it is introduced. The EmboCath® Plus infusion microcatheter was part of the BioSphere acquisition.

Embolic Particles and Products. We offer embolic microspheres and particles and embolic delivery systems. These products include:

Embosphere® Microspheres and EmboGold® Microspheres, which are marketed for symptomatic uterine fibroids, hypervascularized tumors, and arteriovenous malformations in the United States, the European Union, and several other markets outside the United States;

HepaSphere™ Microspheres, which are marketed in the European Union, Brazil, and Russia and other emerging markets for drug delivery in the treatment of primary and metastatic liver cancer. We received regulatory approval in the European Union in 2013 to sell HepaSphere Microspheres in a smaller size (30-60 µm), giving physicians the ability to achieve more distal occlusions when embolizing hypervascular tumors and arteriovenous malformations;

QuadraSphere® Microspheres, which are marketed for the treatment of hypervascularized tumors and arteriovenous malformations in the United States; and

Bearing nsPVA® Particles, which are marketed for symptomatic uterine fibroids, hypervascularized tumors, and arteriovenous malformations in the United States, the European Union, and several other markets outside the United States.

Vascular Retrieval Devices. Our snares or vascular retrieval devices are single-use products designed for foreign body manipulation and retrieval and can be used to retrieve inferior vena cava filters, reposition indwelling venous catheters, strip fibrin sheath formation, and assist in central venal access venipuncture. We offer the *ONE Snare®*, a single loop device, and the *EN Snare® Endovascular Snare System*, which has three interlaced loops. Both are offered in multiple sizes to accommodate a broad range of vessels throughout the body.

Angiography and Angioplasty Accessories. We offer the Ostial PRO® Stent Positioning System, a medical-grade disposable guide wire system designed to provide consistent and precise stent implantation in aorto-ostial lesions during coronary or peripheral interventional procedures. The Ostial PRO can be used to introduce and position stents and other interventional devices within the coronary and peripheral vasculature and function as an alignment tool. Additional angiographic accessories include the Flow Control Switch™, an integrated, one-handed, single-channel switch designed with clinician and patient safety in mind. Since the introduction of the CCS™ Coronary Control Syringe line in 1988, we have continued to develop innovative, problem-solving devices, accessories, kits and procedure trays for use during minimally invasive diagnosis and treatment of coronary artery and peripheral disease. We now offer a broad range of specialty syringes, including color-coded Medallion® Syringes and the VacLok® Vacuum Pressure Syringe. The most recent line extensions to our syringe product family are frosted and sword-handled Medallion® syringes. Additionally, we offer an extensive line of kits containing fluid management products such as syringes, manifolds, stopcocks, tubing, and disposable pressure transducers (Meritrans®) for measurement of pressures within the vessels and chambers of the heart. The TRAM® and TRAM-P™ Manifolds with Integral Transducers combine a low torque manifold with the transducer. We also provide devices, kits and procedure trays designed to effectively and safely manage fluids, contrast media and waste during angiography and interventional procedures. The Miser® Contrast Management System complements our comprehensive line of fluid management products used in angiography procedures.

Hemodialysis and Peritoneal Dialysis. We offer peritoneal dialysis catheters and accessories as part of our dialysis and interventional nephrology product line, including the Flex-Neck® and ExxTended™ Peritoneal Dialysis Catheters and Y-TEC® Implantation Kits. The Centros® and CentrosFLO® Long-Term Hemodialysis Catheters anchor our chronic dialysis line. The ProGuide™ is considered a “workhorse” catheter for chronic dialysis and provides a platform for the development of additional Merit products in the dialysis and interventional nephrology market. For example, the new Prelude® Short Sheath provides vascular access to dialysis grafts, along

with our extensive line of micro access devices such as the MAK™ and S-MAK™ line of mini access kits. We also offer a wide range of guide wires, diagnostic catheters, therapeutic infusion systems and safety products that can be used during dialysis-related procedures. The OuTake® Catheter Extractor is used to remove tunneled chronic dialysis catheters from dialysis patients. A curved introducer needle aids clinicians who choose to place a tunneled dialysis catheter over a wire with a single stick. The Slip-Not® Suture Retention Device provides a unique and effective method for securing a purse-string suture that controls bleeding after an arteriovenous (“AV”) fistula intervention. In addition, we offer the Impress® 30 cm Fistula Catheters, which can be used by interventional nephrologists. Our dialysis and interventional nephrology products are designed to provide comprehensive coverage for completing AV fistula interventions.

Electrophysiology ("EP") and Cardiac Rhythm Management ("CRM") Products. We offer innovative solutions to address lead implantation and therapeutic delivery in the rapidly-expanding cardiac rhythm management and electrophysiology fields.

CRM is the field of cardiovascular disease therapy that relates to the detection and treatment of abnormally fast (tachycardia) and abnormally slow (bradycardia) heart rhythms, or electrical patterns in the heart, and heart failure. We offer products that improve lead delivery and vessel access. The ClassicSheath™ Splittable Hemostatic Introducer System allows for insertion of cardiac pacer leads for pacemakers and implantable cardioverter defibrillators. Its robust valve design reduces the risk of air embolism and backbleed. We also offer the Worley™ Advanced LV Delivery System to aid in the insertion and implantation of left ventricular leads, which are wire electrodes inserted into the coronary sinus to the left lateral wall of the heart to pace the left side of the heart for heart failure patients. The Worley™ Advanced LV Delivery System has been shown to reduce lead failure, improve target lead location and reduce procedure times.

Cardiac EP is the study of diagnosing and treating the electrical activities of the heart. Common procedures include diagnostic EP studies and therapeutic ablation procedures designed to deter arrhythmia. We offer the HeartSpan® Transseptal Needle, which is designed with a larger ergonomic handle, unique unibody needle design and optimal needle sharpness; the HeartSpan® Transseptal Sheath, which features an improved hemostasis valve for reduced blood loss and air embolism, smooth sheath to dilator transition for easier transseptal crossing, and reinforced stainless steel tubing for excellent torque response. In 2014, we introduced the HeartSpan® Steerable Sheath Introducer designed to reduce the risk of atrial wall perforation when navigating cardiac chambers.

Endoscopy Products for Gastroenterology, Pulmonology, and Thoracic Surgery

Airway Stents. Through our Merit Endotek division ("Merit Endotek"), we sell a variety of non-vascular stents. Our AERO® and AERO DV® Fully Covered Tracheobronchial Stents are used by interventional pulmonologists and thoracic surgeons. These products offer our customers patented, fully covered, self-expanding metal stents used to improve patency of patient airways-both tracheal and bronchial-and to offer palliation to patients suffering from strictures caused by cancer. We released the new AEROMini™ fully covered tracheobronchial stent system in February, 2015. The AEROMini's low-profile delivery system is designed to provide additional flexibility to aid in the accurate placement of stents in difficult anatomy.

Esophageal Stents. The Alimaxx-ES™ and the EndoMAXX® Fully Covered Esophageal Stents are used by interventional gastroenterologists, otolaryngologists and thoracic surgeons to palliate symptoms associated with malignant tumors and strictures affecting the esophagus, as well as to treat concomitant tracheoesophageal fistulae. The new EndoMAXX EVT™ is an esophageal stent with a reflux control valve that is currently only available for sale outside the United States.

Biliary Stents. The Alimaxx-B® Biliary Stent System is used by interventional gastroenterologists to palliate symptoms associated with malignant tumors affecting the bile duct. Additionally, we sell a plastic biliary stent that is used to restore patency and relieve symptoms associated with strictures and blockages within the biliary system. These stents are often used to “stage” treatment of malignant tumors such as pancreatic cancer and other serious conditions.

Stent Sizing Device. Merit Endotek also sells the AEROSIZER® tracheobronchial stent sizing device which is used in interventional pulmonology procedures. This proprietary product allows length and diameter measurement accuracy, thus minimizing the possibility of stent mis-sizing and associated cost and complications.

Guide Wires for Non-Vascular Procedures. MAXXWIRE® is a line of specialty guide wires that have pulmonology and gastroenterology applications.

Bipolar Coagulation Probes. Bipolar probes are used by physicians as one means of controlling bleeding within the gastrointestinal tract. Our Brighton® Bipolar Probe is now sold directly by Merit Endotek and our original bipolar probe is sold on an original equipment manufacturer (“OEM”) basis to customers who market them to a large number of gastroenterologists.

Inflation Devices. Merit Endotek's BIG60® Inflation Device is a 60 mL device designed to inflate and deflate non-vascular balloon dilators while monitoring and displaying inflation pressures up to 12 atmospheres. Merit Endotek also offers Endotek-labeled versions of the BasixCOMPAK™ and Monarch Inflation Device to customers in pulmonology, gastroenterology, and thoracic surgery.

Cholangiography Rapid Refill Continuous Injection Kits. Merit Endotek's BiliQUICK™ Cholangiography Rapid Refill Continuous Injection Kit incorporates a convenient all-in-one kit that is used in gastroenterology to deliver contrast media both quickly and efficiently while eliminating unnecessary time spent refilling the injection syringe. Our Inject10^{PT}™ Coronary Control Syringe is included in the kit.

Oropharyngeal Airway, Bite Block and Oxygen Administration Device. The TIO™ Three-in-One is a combination product that incorporates the benefits of an oropharyngeal airway, bite block and oxygen administration device into one convenient, easy-to-use device, designed to enhance procedure efficiency.

BAL Kits. We recently released the bronchoalveolar lavage (BAL) Convenience Kit™ that includes the components needed to help ensure efficiency, consistency and safety during intubated bronchoscopy requiring bronchoalveolar lavage. These all-in-one kits are ideal for busy Intensive Care Units and practices looking to streamline and standardize patient care.

Specialty Procedure Products

In addition to the procedures and devices detailed above, interventional radiology and other special procedure labs perform a variety of additional minimally invasive diagnostic and interventional procedures. We offer a variety of devices and accessories used during these procedures.

Support Catheters. In 2014 we introduced the Merit SureCross® Support Catheter. This catheter is designed to cross partial and total chronic occlusions in the peripheral arteries.

Discography Products. Discography is a technique used to determine whether a disc is the source of pain in patients with back or neck pain. During discography, contrast medium is injected into the disc and the patient's response to the injection is noted. Due to their quality and accuracy, our digital inflation devices (IntelliSystem® and Monarch) are used in many pain management clinics.

Coated Wires and Tubes. We provide coating services for medical tubes and wires under OEM brands. We offer coated tubes and wires to customers on a spool or as further manufactured components like hypotubes, guide wire components, coated mandrels/stylets and coated needles. Our coating operation facility is located in Venlo, The Netherlands, where PFOA-free PTFE and Hydrophilic coatings are applied to bulk lengths of bare wire and tubing, prior to cutting, using a proprietary spool-to-spool coating method. Our coating technology is designed to facilitate production of consistently-coated medical tubes and wires with tight tolerances. In the summer of 2013, we opened a state-of-the-art hypotube manufacturing *Center of Excellence* in Galway, Ireland, which features advanced laser cutting and ablation, passivation, cleaning and other hypotube manufacturing processes. The Merit Hypotube™ is used as the catheter shaft in PTCA and PTA balloon catheters, as well as functional guide wires.

Pressure Sensors. Our sensor division manufactures and sells microelectromechanical systems (“MEMS”) pressure sensor components focusing on piezoresistive pressure sensors in various forms, including bare silicon die, die mounted on ceramic substrates, and custom assemblies for specific customers.

MARKETING AND SALES

Target Market/Industry. Our principal target markets include diagnostic and interventional cardiology, interventional radiology, interventional gastroenterology, interventional pulmonology, thoracic surgery, interventional nephrology, vascular surgery, oncology, electrophysiology, cardiac rhythm management and pain management.

According to U.S. government statistics, cardiovascular disease continues to be a leading cause of death and a significant health problem in the United States. Treatment options range from dietary changes to surgery, depending on the nature of the specific disease or disorder. Endovascular techniques, including angioplasty, stenting, and endoluminal stent grafts, continue to represent important therapeutic options for the treatment of vascular disease. We derive a large percentage of our revenues from sales of products used during percutaneous diagnostic and interventional procedures such as angiography, angioplasty, and stent placement, and we intend to pursue additional sales growth by building on our existing market position in both catheter technology and accessory products.

In addition to products used in the treatment of coronary and peripheral vascular disease, we continue our efforts to develop and distribute other devices used in the major markets we serve. For example, we have developed and are distributing products used for percutaneous drainage. Prior to the widespread use of CT or ultrasound imaging, surgery was necessary to drain internal fluid from body cavities and organs. Currently, percutaneous drainage is frequently prescribed as the treatment of choice for many types of fluid collections. Our family of drainage catheters and associated devices are used by physicians in interventional radiology, vascular surgery and cardiology catheter lab procedures for the percutaneous drainage collection of simple serous fluid to viscous fluid (blood, or infected secretions) within the body.

As part of our embolic microsphere sales and marketing efforts, we attend major medical conventions throughout the world pertaining to our targeted markets and invest in market development (including physician training), practice building, referral network education and patient outreach. We work closely with major interventional radiology centers in the areas of training, therapy awareness programs, clinical studies and ongoing research.

We also service the growing interventional nephrology market. Dialysis, or cleaning of the blood, is necessary in conditions such as acute renal failure, chronic renal failure and end-stage renal disease. The kidneys remove excess water and chemical wastes from blood, permitting clean blood to return to the circulatory system. When the kidneys malfunction, waste substances are not properly excreted, creating an abnormal buildup of wastes in the bloodstream. Dialysis machines are used to treat this condition. Dialysis catheters, which connect the patient to the dialysis machine, are used at various stages in the treatment of dialysis patients. In the past few years, we have added catheters and other accessories to our dialysis-related product offerings.

We believe the development of Merit Endotek and the move into the areas of interventional gastroenterology, pulmonology and thoracic surgery will open up new opportunities to sell existing Merit products, such as inflation devices, syringes, centesis catheters and procedure kits to those markets, but will also provide additional products incorporating our non-vascular stent and guide wire technology.

In general, our target markets are characterized by rapid change resulting from technological advances and scientific discoveries. We plan to continue to develop and launch innovative products to support clinical trends and to address the increasing demands of these markets.

Marketing Strategy. Our marketing strategy is focused on identifying and introducing a regular flow of highly profitable differentiated products that meet customer needs. In order to stay abreast of customer needs, we frequently seek suggestions from health care professionals working in multiple fields of medicine, including diagnostic and interventional cardiology, interventional radiology, interventional gastroenterology, interventional

pulmonology, thoracic surgery, interventional nephrology, vascular surgery, oncology, electrophysiology, cardiac rhythm management and pain management. Suggestions for new products and product improvements may also come from engineers, sales people, physicians and technicians who perform clinical procedures.

When we determine that a product suggestion demonstrates a sustainable competitive advantage, meets customer needs, fits strategically and technologically with our business and has a good potential financial return, we generally assemble a “project team” comprised of individuals from our sales, marketing, engineering, manufacturing, legal, and quality assurance departments. This team works to identify the customer requirements, integrate the design, compile necessary documentation and testing, and prepare the product for market introduction. We believe that one of our marketing strengths is our capacity to rapidly conceive, design, develop and introduce new products.

U.S. and International Sales. Sales of our products in the U.S. accounted for 61%, 63% and 63% of our total sales for the years ended December 31, 2014, 2013 and 2012, respectively. In the U.S. we have a dedicated corporate sales organization primarily focused on selling to end user hospitals and clinics, major buying groups and integrated healthcare networks.

We have direct sales representatives and contract with independent dealer organizations and custom procedure tray manufacturers to distribute our products worldwide, including territories in Europe, Africa, the Middle East, Asia, South and Central America, Oceania and Canada. In 2014, our international sales grew approximately 20% over our 2013 international sales, and accounted for approximately \$198.3 million, or 39% of our total sales. Merit Endotek has a small, but growing, presence in several international markets. With the recent and planned additions to our product lines, we believe our international sales will continue to increase.

We require our international dealers to inventory products and sell directly to customers within defined sales territories. Each of our products must be approved for sale under the laws of the country in which it is sold. International dealers are responsible for compliance with all applicable laws and regulations in their respective countries.

We consider training to be a critical factor in the success of our direct sales force. Our sales representatives are trained by our personnel at our facilities, by a senior sales person in their respective territories, at regular national and regional sales meetings, by consulting physicians and other healthcare professionals and by observation of procedures in laboratories and operating rooms throughout the U.S.

OEM Sales. Our global OEM division sells components and finished devices, including molded components, sub-assembled goods, custom kits and bulk non-sterile goods, to medical device manufacturers. These products may be combined with other components and/or products from other companies and sold under a Merit or third-party label. Products sold by the OEM division can be customized and enhanced to customer specifications, including packaging, labeling and a variety of physical modifications. The OEM division serves customers with a staff of regional sales representatives based in the U.S., Europe and Asia and a dedicated OEM Engineering and Customer Service Group.

CUSTOMERS

We provide products to hospitals and clinic-based cardiologists, radiologists, neurologists, nephrologists, vascular surgeons, interventional gastroenterologists and pulmonologists, thoracic surgeons, physiatrists (pain management physicians), nephrologists, vascular surgeons, oncologists, electrophysiologists, technicians and nurses. Hospitals and acute care facilities in the United States purchase our products through our direct sales force, distributors, OEM partners, and custom procedure tray manufacturers who assemble and combine our products in custom kits and packs. Outside the United States, hospitals and acute care facilities purchase our products through our direct sales force, or, in the absence of a sales force, through independent distributors or OEM partners.

In 2014, our U.S. sales force made approximately 42% of our sales directly to U.S. hospitals (including three percent of our total sales for Merit Endotek) and approximately seven percent of our sales through other channels such as U.S. custom procedure tray manufacturers and distributors. We also sell products to other medical device companies through our U.S. OEM sales force, which accounted for approximately 15% of our 2014 sales.

Approximately 39% of our 2014 sales were made to international markets by our direct European sales force, international distributors, and our OEM sales force (includes three percent of our total sales for OEM international). Sales to our largest customer accounted for approximately three percent of total sales during the year ended December 31, 2014.

RESEARCH AND DEVELOPMENT

Our commitment to innovation led to the introduction of several new products in 2014. We are also working on additional new products for future release. We are developing the Prelude Snap™, a splittable hemostatic introducer designed to introduce various pacing leads and catheters. We believe the Prelude Snap will have a reduced break force as compared to its predicate and a larger wing design for better grip. We received CE mark approval for the Prelude Snap introducer in January of 2015, and anticipate receiving FDA clearance during the second quarter of 2015.

We are also developing the Corvocet™ Core Needle Biopsy System, which is designed with a number of innovative features including enhanced ergonomics, improved precision, as well as innovations intended to minimize patient discomfort. As a diagnostic tool, the biopsy system is intended to compliment the treatment options in our growing embolotherapy product portfolio. We expect to receive CE mark approval for the Corvocet system during the third quarter of 2015, and FDA clearance during the fourth quarter of 2015.

We are also developing a disposable, digital inflation syringe designed to inflate and deflate angioplasty balloons, deploy stents, and measure the time of inflation and pressure within the balloon. As currently designed, the time and pressure data would be transferred via a Bluetooth® wireless connection to a tablet which would display the data in real time. Many hospitals record angioplasty metrics including maximum pressure and inflation time. These metrics could be logged in the monitor and viewed on the screen, or could be exported via a printer or e-mail. We expect CE mark approval for the digital inflation syringe and FDA clearance during 2016.

We also intend to expand our line of One-Step™ Centesis Catheters that are used to drain fluid from patients during procedures such as paracentesis and thoracentesis. There is new patent protection pending for this line extension. We expect additional sizes and a new pigtail version to be available stand alone, as well as for kits and trays, during the second half of 2015.

We are developing a dual lumen catheter named the Lamsano™ for delivery of contrast medium in angiographic studies and for simultaneous pressure measurement at two sites. Measuring pressure at two sites is useful in determining transvalvular, intravascular, and intraventricular pressure gradients. We expect CE mark approval for the Lamsano catheter and FDA clearance during 2016.

We have also developed a syringe preloaded with dry nsPVA (non-spherical polyvinylalcohol) embolic particles. The syringe features silicone-free lubrication, ideal for packaging with this type of product. We expect CE mark approval of the syringe and FDA clearance in the second quarter of 2015.

We expect to launch a resorbable embolic in 2015: gel foam in a syringe. Gel foam is currently available in sheet form from suppliers. We will provide gel foam dry in a syringe, minimizing preparation steps and improving preparation consistency. The syringe configuration for gel foam will also provide a seamless method of administration following biopsy procedures.

We are developing a line extension to our basixTOUCH™ inflation device, with improved performance to deliver 40 ATM of pressure for the inflation of large, high pressure interventional balloons. The basixTOUCH⁴⁰ will be available in 2015.

We are developing a self-expanding, covered stent graft that will be used to treat vascular disease. We plan to seek an IDE (investigational device exemption) from the FDA in 2017.

Finally, Merit Endotek is developing a family of Elation™ Balloon Dilators, designed to provide precise, controlled, three-stage dilation and clear visualization of tight strictures during balloon dilation. We expect a fixed-wire esophageal balloon to be available during the second quarter of 2015. A wire-guided esophageal balloon dilator

is expected to be CE marked and FDA cleared during the second half of 2015. We intend for the wire-guided balloon dilator to come packaged with a 0.035” (0.89mm) floppy tip guide wire, preloaded in the guide wire lumen to help dilate tight strictures. Pulmonary and biliary balloon dilators are also expected to be CE marked and FDA cleared during the second half of 2015. The pulmonary balloon dilator is intended to be used to endoscopically dilate strictures of the trachea and bronchi.

Our research and development expenses were approximately \$36.6 million, \$33.9 million, and \$27.8 million in 2014, 2013 and 2012, respectively.

We continue to develop new products and make improvements to our existing products utilizing many different sources. Our Chief Executive Officer and VP of Research and Development work closely with our sales and marketing teams, to incorporate feedback from physicians in the field, which can lead to improvements or new products.

Currently we have research and development facilities in:

- Galway, Ireland
- South Jordan, Utah
- Pearland and Dallas, Texas
- Malvern, Pennsylvania
- Jackson Township, New Jersey
- Paris, France and
- Venlo, The Netherlands

MANUFACTURING

We manufacture many of our products utilizing our proprietary technology and our expertise in plastic injection and insert molding. We generally contract with third parties for the tooling of our molds, but we design and own most of our molds. We utilize our experience in injection and insert molding technologies in the manufacture of most of the custom components used in our products. We have received International Standards Organization (“ISO”) 13485:2003 certification for our facilities in Utah, Texas, Virginia, Pennsylvania, The Netherlands, Ireland and France. We have also received ISO 9001:2008 certification for our Merit Sensor Systems, Inc. (“Merit Sensors”) facility in South Jordan, Utah.

We either assemble the electronic monitors and sensors used in our IntelliSystem and Monarch inflation devices from standard electronic components or purchase them from third-party suppliers. Merit Sensors develops and markets silicon pressure sensors. Merit Sensors presently supplies all of the sensors we utilize in our digital inflation devices and blood pressure transducers.

We currently produce and package all of our microspheres. Manufacturing of our microsphere products includes the synthesis and processing of raw materials and third-party manufactured compounds.

Our products are manufactured at several factories, including facilities located in South Jordan and West Jordan, Utah; Malvern, Pennsylvania; Galway, Ireland; Venlo, The Netherlands; Paris, France; Pearland, Texas; and Chester, Virginia. See Item 2. “Properties.” We have also contracted with third-party manufacturers to produce some of our products domestically and internationally.

We have distribution centers located in South Jordan, Utah; Chester, Virginia; Malvern, Pennsylvania; Beijing and Hong Kong, China; and Maastricht, The Netherlands.

We believe that our variety of suppliers for raw materials and components necessary for the manufacture of our products, as well as our long-term relationships with such suppliers, promote stability in our manufacturing processes. Historically, we have not been materially affected by interruptions with such suppliers; however, there can be no assurance that we will not experience supply disruptions in the future. We seek to develop relationships with potential back-up suppliers for materials and components in the event of supply interruptions.

COMPETITION

We compete in several global markets, including diagnostic and interventional cardiology, interventional radiology, interventional gastroenterology, interventional pulmonology, thoracic surgery, interventional nephrology, vascular surgery, oncology, electrophysiology, cardiac rhythm management and pain management.

In the interventional cardiology and radiology markets, as well as the gastroenterology and pulmonology markets, we compete with large international, multi-divisional medical supply companies such as Cordis Corporation (Johnson & Johnson), Boston Scientific Corporation, Medtronic, St. Jude Medical, C.R. Bard, Abbott Laboratories, Teleflex, Cook Incorporated, and Terumo Corporation. Medium-size companies we compete with include AngioDynamics, Vascular Solutions, B. Braun, Olympus, Edwards Lifesciences, and ICU Medical.

Our primary competitive embolotherapy product has been Embosphere Microspheres. Currently, the primary products with which our microspheres compete are spherical PVA, sold by Boston Scientific Corporation, BTG and Terumo Corporation; Embozene, sold by CeloNova Biosciences, Inc.; gel foam, sold by Pfizer Inc.; and non-spherical (particle) PVA, sold by Boston Scientific and Cook Incorporated. Our principal competitors in uterine fibroid embolization (“UFE”) are BTG, Boston Scientific, Cook, Cordis Corporation, Pfizer CeloNova BioSciences, and Terumo, as well as companies selling or developing non-embolotherapy solutions for UFE.

The principal competitive factors in the markets in which our products are sold are quality, price, value, device features, customer service, breadth of line, and customer relationships. We believe our products have achieved market acceptance due to the quality of materials and workmanship of our products, their innovative design, our willingness to customize our products to fit customer needs, and our prompt attention to customer requests. Our products are priced competitively, but generally not below prices for competing products. Some of our primary competitive strengths are our relative stability in the marketplace; a comprehensive, broad line of ancillary products; and our history of introducing a variety of new products and product line extensions to the market on a regular basis.

Based on available industry data, with respect to the number of procedures performed, we believe we are the leading provider of digital inflation technology in the world. In addition, we believe we are one of the market leaders in the United States for inflation devices, hemostasis devices and torque devices. We believe we are a market leader in the United States for control syringes, waste-disposal systems, tubing and manifold kits. We anticipate the recent and planned additions to our product lines will enable us to compete even more effectively in both the U.S. and international markets. There is no assurance that we will be able to maintain our existing competitive advantages or compete successfully in the future.

Within the field of uterine artery embolization, we believe we are the market share leader and one of only three companies in the United States to have embolic products specifically indicated for use in UFE. Based on both research and clinical studies conducted on our product for UFE, we believe we offer physicians a high degree of consistent and predictable product performance, ease of use, targeted delivery, and durable vessel occlusion, and therefore satisfactory short- and long-term clinical outcomes validated by peer-reviewed publications, when compared to our competitors.

We derive a substantial majority of our revenues from sales of products used in diagnostic angiography and interventional cardiology and radiology procedures. We believe medical professionals are starting to use new interventional procedures and devices, as well as drugs for the treatment and prevention of cardiovascular disease. These new methods, procedures and devices may render some of our products obsolete or limit the markets for our products. However, with the advent of vascular stents and other procedures, we have experienced continued growth in sales of our products.

PROPRIETARY RIGHTS AND PATENT LITIGATION

We have a number of U.S. and foreign-issued patents and pending patent applications, including patents and rights to patent applications acquired through strategic transactions, which relate to various aspects of our products and technology. The duration of our patents is determined by the laws of the country of issuance and for the U.S. is typically 20 years from the date of filing of the patent. As of December 31, 2014, we owned or had a

license to more than 600 U.S. and international patents and patent applications. We also operate under licenses from owners of certain other technology, trade secrets, know-how, copyrights and trademarks.

Merit and the Merit logo are trademarks in the U.S. and other countries. In addition to Merit and the Merit logo, we have used, registered or applied for registration of other specific trademarks and service marks to help distinguish our products, technologies, and services from those of our competitors in the U.S. and foreign countries. See “Products” above. The duration of our trademark registrations varies from country to country; in the U.S. we generally are able to maintain our trademark rights and renew any trademark registrations for as long as the trademarks are in use. We have received over 300 U.S. and foreign trademark registrations, and other U.S. and foreign trademark applications are currently pending.

Some of our products and product documentation are protected under U.S. and international copyright laws related to the protection of intellectual property and proprietary information. We have registered copyrights relating to certain software used in our electronic inflation devices.

REGULATION

U.S. Regulation. The FDA and other federal, state and local authorities regulate our products and product-related activities. Pursuant to the Federal Food, Drug, and Cosmetic Act (“FDCA”) and the regulations promulgated under that act, the FDA regulates the design, development, clinical trials, testing, manufacture, packaging, labeling, storage, distribution and promotion of medical devices. We believe our products and procedures are in material compliance with all applicable FDA regulations, but the regulations are subject to change. We cannot predict the effect, if any, that these changes might have on our business, financial condition or results of operations. In addition, if the FDA believes that we are not in compliance with the FDCA, it can institute proceedings to detain or seize products, require a recall, enjoin future violations, and/or seek civil and/or criminal penalties against us and our officers and employees. If we fail to comply with these regulatory requirements, our business, financial condition and results of operations could be negatively affected.

FDA Premarket Review. In general, we cannot introduce a new medical device into the market until we obtain market clearance through a 510(k) premarket notification or approval through a premarket approval (“PMA”) application. Some devices, typically lower-risk devices, are subject to specific exemptions from premarket review. In addition, in limited cases devices may come to the market through alternative procedures, such as a humanitarian device exemption (“HDE”), which applies only to devices that are intended to treat or diagnose diseases or conditions affecting fewer than 4,000 people in the United States each year.

The FDA's 510(k) clearance procedure is less rigorous than the PMA approval procedure, but is available only to sponsors who can establish that their device is substantially equivalent to a legally-marketed “predicate” device that (i) was on the market prior to the enactment of the Medical Device Amendments of 1976, (ii) has been reclassified from Class III to Class II, or (iii) has been cleared through the 510(k) procedure. The 510(k) clearance procedure usually takes between three months and one year from the date a 510(k) notification is submitted, but it may take longer. The FDA may find that substantial equivalence has not been shown and, as a result, require additional clinical or non-clinical testing to support a 510(k) or require a PMA application.

PMA applications must be supported by valid scientific evidence to demonstrate the safety and effectiveness of the subject device. Such evidence typically includes the results of human clinical trials, bench tests, and laboratory and animal studies. The PMA application must also contain a complete description of the device and its components, and a detailed description of the manufacturing process and controls for the device. As part of the PMA application review, the FDA will inspect the manufacturer's facilities for compliance with the FDA's Quality System Regulations (“QSR”). If the FDA approves the PMA, it may place restrictions on the device. If the FDA's evaluation of the PMA application or the manufacturing facility is not favorable, the FDA may deny approval of the PMA application or issue a “not approvable” letter. The FDA may also require additional clinical trials, which can delay the PMA approval process by several years. The PMA application process can be expensive and generally takes several years to complete. There is also a substantial “user fee” that must be paid to FDA in connection with the submission of each PMA application. After the PMA is approved, if significant changes are made to a device, its manufacturing or labeling, a PMA supplement containing additional information must be filed for prior FDA

approval. PMA supplements often must be approved by the FDA before the modification to the device, the labeling, or the manufacturing process may be implemented.

If human clinical trials of a medical device are required for FDA clearance or approval and the device presents a significant risk, the sponsor of the trial must file an investigational device exemption (“IDE”) application with the FDA prior to commencing human clinical trials. The IDE application must be supported by data, typically including the results of animal and/or laboratory testing. If the IDE application is approved by the FDA and one or more institutional review boards (“IRBs”), human clinical trials may begin at a specific number of institutional investigational sites with the specific number of patients approved by the FDA. If the device presents a non-significant risk to the patient, a sponsor may begin the clinical trial after obtaining approval for the trial by one or more IRBs without separate approval from the FDA. Clinical trials are subject to extensive recordkeeping and reporting requirements. Our clinical trials must be conducted under the oversight of an IRB for the relevant clinical trial sites and must comply with FDA regulations, including but not limited to those relating to good clinical practices. We are also required to obtain each patient's written informed consent in form and substance that complies with both FDA requirements and state and federal privacy and human subject protection regulations. We, the FDA, or the IRB may suspend a clinical trial at any time for various reasons, including a belief that the risks to study subjects outweigh the anticipated benefits. Submission of an IDE application does not give assurance that the FDA will issue the IDE. If the IDE application is approved, there can be no assurance the FDA will determine that the data derived from the trials support the safety and effectiveness of the device or warrant the continuation of clinical trials. An IDE supplement must be submitted to and approved by the FDA before a sponsor or investigator may make a change to the investigational plan in such a way that may affect its scientific soundness, study indication or the rights, safety or welfare of human subjects.

The FDA clearance and approval processes for medical devices are expensive, uncertain and lengthy. There can be no assurance that we will be able to obtain necessary regulatory clearances or approvals for any product on a timely basis or at all. Delays in receipt of or failure to receive such clearances or approvals, the loss of previously received clearances or approvals, or the failure to comply with existing or future regulatory requirements could have a material adverse effect on our business, financial condition or results of operations.

In November 2010, we received FDA approval of our IDE application to conduct a phase 3 clinical trial to treat primary liver cancer with QuadraSphere Microspheres, combined with the chemotherapeutic agent doxorubicin, compared to conventional transarterial chemoembolization, or cTACE, with doxorubicin. Enrollment in the clinical trial has begun both in Europe and in the United States. An identical product, called HepaSphere Microspheres outside the US, has already received the CE mark for the indication of embolization of liver tumors, with or without doxorubicin, in the EU. Additionally, in October 2012 we received FDA approval of our IDE application to conduct a phase 3 clinical trial to compare the effectiveness and safety of prostate artery embolization compared to transurethral resection of the prostate for the treatment of symptomatic benign prostatic hyperplasia, and enrollment in the clinical trial has begun. Our Embosphere Microspheres used in this trial have already received the CE mark for the indication of prostate artery embolization in the EU. Furthermore, in December 2013 we received FDA approval of our IDE application to conduct a phase 3 clinical trial comparing the EndoMAXX EVT Valved Esophageal Stent with a standard open esophageal stent to evaluate improvements in dysphagia in patients with malignant stricture of the esophagus and to assess quality of life related to symptoms of gastric reflux. Enrollment in this study has begun. Our EndoMAXX EVT Valved Esophageal Stent used in this clinical trial has already received the CE mark in the EU for the indication of for maintaining esophageal luminal patency in esophageal strictures caused by intrinsic and/or extrinsic malignant tumors and for occlusion of esophageal fistulae. The stent is also indicated for stenting refractory benign esophageal strictures for up to six months in the European Union (“EU”). Our inability to complete these trials or our receipt of unfavorable or inconsistent data from these trials may adversely affect our ability to obtain approval for these new indications.

We are currently conducting a clinical trial in an effort to obtain approval from the FDA to claim the use of the QuadraSphere Microspheres with doxorubicin for the treatment of liver cancer in the United States. We are also currently conducting clinical trials to obtain FDA approval to claim the use of our Embosphere Microspheres for the indication of prostate artery embolization, and clearance for the use of our EndoMAXX EVT Valved Esophageal Stent to relieve dysphagia in patients with malignant stricture of the esophagus. European Union regulations do not currently require such an application for these classes of medical device. In order for us to obtain FDA approval or clearance to promote the use of QuadraSphere Microspheres, Embosphere Microspheres, and the EndoMAXX EVT

Valved Esophageal Stent for the purposes indicated in our clinical trials, we will need to complete those trials and submit positive clinical data to the FDA. If we cannot enroll study subjects in sufficient numbers to complete the necessary studies, if there is a disruption in the supply of materials for the trials or if any other factors preclude us from completing the trials in a timely manner we will likely not be able to complete those trials. Even if we complete any or all of the three clinical trials, the FDA may require us to undertake additional testing, or the trial results may not be sufficient to obtain FDA approval or clearance for other reasons. If we do not obtain FDA approval or clearance of the product use claimed in a clinical trial, we will not be able to promote the subject product for the indicated treatment of the specific disease or condition in the United States.

Changes in Cleared or Approved Devices. We must obtain new FDA 510(k) clearance or supplemental premarket approval when there is a major change or modification in the intended use or indications for use of a legally marketed device or a change or modification of the device, including certain manufacturing changes, product enhancements and product line extensions of a legally marketed device, as required by FDA regulations. In some cases, supporting clinical data may be required. The FDA may determine that a new or modified device is not substantially equivalent to a predicate device or may require that additional information, including clinical data, be submitted before a determination is made, either of which could significantly delay the introduction of new or modified devices.

Current Good Manufacturing Practices and Quality System Regulation. The FDCA requires us to comply with the Quality System Regulation (“QSR”) and Good Manufacturing Practice (“GMP”) requirements pertaining to all aspects of our product design and manufacturing processes, including requirements for packaging, labeling and record keeping, complaint handling, corrective and preventive actions and internal auditing. The FDA enforces these requirements through periodic inspections of medical device manufacturers. These requirements are complex and technical and require substantial resources to remain compliant. Our failure or the failure of our suppliers to maintain compliance with the QSR requirements could result in the shutdown of our manufacturing operations or the recall of our products, which would have a material adverse effect on our business. In the event that one of our suppliers fails to maintain compliance with our quality requirements, we may have to qualify a new supplier and could experience manufacturing delays as a result. We also could be subject to injunctions, product seizures, or civil or criminal penalties.

Medical Device Reporting. Medical Device Reporting (“MDR”) regulations require us to inform the FDA whenever information reasonably suggests that one of our devices may have caused or contributed to a death or serious injury, or when one of our devices has malfunctioned, if the device would be likely to cause or contribute to a death or a serious injury in the event the malfunction were to recur.

Labeling and Promotion. Our labeling and promotional activities are also subject to scrutiny by the FDA. Labeling includes not only the label on a device, but also includes any descriptive or informational literature that accompanies or is used to promote the device. Among other things, labeling violates the law if it is false or misleading in any respect or it fails to contain adequate directions for use. Moreover, product claims that are outside the labeling either approved or cleared by the FDA violate the FDCA. Allegations of off-label promotion can result in enforcement action by both federal and state agencies, including the FDA, the Department of Justice, the Office of Inspector General of the Department of Health and Human Services, state attorneys general, as well as liability under the False Claims Act, discussed further below.

Federal Trade Commission. Our product promotion is also subject to regulation by the Federal Trade Commission (the “FTC”), which has primary oversight of the advertising of unrestricted devices. The Federal Trade Commission Act prohibits unfair methods of competition and unfair or deceptive acts or practices in or affecting commerce, as well as unfair or deceptive practices such as the dissemination of any false advertisement pertaining to medical devices. FTC enforcement can result in orders requiring, among other things, limits on advertising, corrective advertising, consumer redress, rescission of contracts and such other relief as the FTC may deem necessary.

Import Requirements. To import a medical device into the United States, the importer must file an entry notice and bond with the United States Bureau of Customs and Border Protection (“CBP”). All devices are subject to FDA examination before release from the CBP. Any article that appears to be in violation of the FDCA may be

refused admission and a notice of detention and hearing may be issued. If the FDA ultimately refuses admission, the CBP may issue a notice for redelivery and assess liquidated damages for up to three times the value of the lot.

Export Requirements. Products for export from Europe and from the United States are subject to foreign countries' import requirements and the exporting requirements of the FDA or European regulating bodies, as applicable. In particular, international sales of medical devices manufactured in the United States that are not approved or cleared by the FDA for use in the United States, or are banned or deviate from lawful performance standards, are subject to FDA export requirements and we may not be able to export such products.

Foreign countries often require, among other things, an FDA certificate for products for export, also called a Certificate to Foreign Government. To obtain this certificate from the FDA, the device manufacturer must apply to the FDA. The FDA certifies that the product has been granted clearance or approval in the United States and that the manufacturing facilities were in compliance with the Quality Systems Regulation at the time of the last FDA inspection.

Foreign Regulations. Medical device laws and regulations are also in effect in many countries outside of the United States. These laws and regulations vary significantly from country to country and range from comprehensive device approval requirements for some or all of our medical device products to more basic requests for product data or certification. The number and scope of these requirements are increasing.

In particular, marketing of medical devices in the European Economic Area (“EEA”) is subject to compliance with European Medical Device Directives. Under this regime, a medical device may be placed on the market within the EEA if it conforms to certain “essential requirements” and bears the CE mark. The most fundamental essential requirement is that a medical device must be designed and manufactured in such a way that it will not compromise the clinical condition or safety of patients, or the safety and health of users and others. In addition, the device must achieve the performances intended by the manufacturer and be designed, manufactured and packaged in a suitable manner.

Manufacturers must demonstrate that their devices conform to the relevant essential requirements through a conformity assessment procedure. The nature of the assessment depends upon the classification of the device. The classification rules are mainly based on three criteria: the length of time the device is in contact with the body, the degree of invasiveness and the extent to which the device affects the anatomy. Conformity assessment procedures for all but the lowest risk classification of device involve a notified body. Notified bodies are often private entities and are authorized or licensed to perform such assessments by government authorities. Manufacturers usually have some flexibility to select conformity assessment procedures for a particular class of device and to reflect their circumstances, e.g., the likelihood that the manufacturer will make frequent modifications to its products. Conformity assessment procedures require an assessment of available clinical evidence, literature data for the product and post-market experience in respect of similar products already marketed. Notified bodies also may review the manufacturer's quality systems. If satisfied that the product conforms to the relevant essential requirements, the notified body issues a certificate of conformity, which the manufacturer uses as a basis for its own declaration of conformity and application of the CE mark. Application of the CE mark allows the product to be distributed throughout the EEA.

Failure to materially comply with applicable EEA or other foreign medical device laws and regulations would likely have a material adverse effect on our business. In addition, the European Commission is currently revising the legal framework for medical devices in the EEA. Approval of the new regulations is anticipated in 2015. If the current EEA and other foreign regulations regarding the manufacture and sale of medical devices change, the new regulations may impose additional obligations on medical device manufactures or otherwise have a material adverse effect on our business.

Reimbursement. Our products are generally used in medical procedures covered by government or private health plans. In general, a third-party payer covers a medical device or procedure only when the plan administrator is satisfied that the product or procedure is reasonable and necessary to the treatment of the patient. Some private payers in the U.S. and government payers in foreign countries may also condition payment on the cost-effectiveness of the treatment. Even if a device has received clearance or approval for marketing by the FDA, there is no certainty that third-party payers will reimburse patients for the cost of the device and related procedures. Even if coverage is

available, third-party payers may place restrictions on the circumstances in which they provide coverage or may offer reimbursement that is not sufficient to cover the cost of our products. If hospitals and physicians cannot obtain adequate reimbursement for our products or the procedures in which they are used, our business, financial condition, results of operations, and cash flows could suffer a material adverse impact.

Patient Protection and Affordable Care Act. The Patient Protection and Affordable Care Act (“PPACA”) has changed the way healthcare in the United States is financed by both governmental and private insurers and has significantly affected the medical device industry. This new law contains a number of provisions, including provisions governing enrollment in federal healthcare programs, reimbursement changes, the increased funding of comparative effectiveness research for use in healthcare decision-making, and enhancements to fraud and abuse requirements and enforcement, that we believe affect existing government healthcare programs and result in the development of new programs. The PPACA imposes on medical device manufacturers a 2.3% excise tax on U.S. sales of certain medical devices, which has adversely affected our gross profit and earnings for our marketed products, and is expected to adversely affect our gross profit and earnings in the future.

The PPACA also includes new reporting and disclosure requirements for device manufacturers with regard to payments or other transfers of value made to certain healthcare providers. The first report under these provisions was due on March 31, 2014 and was related to payments or other transfers of value made between August 1 and December 31, 2013. Thereafter, annual reports due in March will relate to payments or other transfers of value during the previous calendar year. Reports submitted under these new requirements will be placed in a public database. If we fail to provide these reports, or if the reports we provide are not accurate, we could be subject to significant penalties. In addition, developing the necessary systems to comply with the new reporting requirement could be financially burdensome. Several states have adopted similar reporting requirements.

Anti-Corruption Laws. Anti-bribery and/or anti-corruption laws are in place in the United States and in many jurisdictions throughout the world. The requirements vary by jurisdiction. In the United States, the Foreign Corrupt Practices Act (the “FCPA”) prohibits corrupt payments to foreign officials for the purpose of procuring or maintaining business and requires that we maintain our books and records for accounting transparency purposes under the Securities Exchange Act of 1934. We are required to train our U.S. and international employees to ensure compliance with these anti-corruption laws. Failing to comply with any anti-corruption law could result in fines, penalties or other adverse consequences.

Anti-Kickback Statutes. The Medicare and Medicaid Patient Protection Act of 1987, as amended, which is more commonly known as the federal healthcare Anti-Kickback Statute, prohibits persons from, among other things, knowingly and willfully offering or paying remuneration, directly or indirectly, to a person to induce the purchase, order, lease, or recommendation of a good or service for which payment may be made in whole or part under a federal healthcare program such as Medicare or Medicaid, unless the arrangement fits within one of several “safe harbors.” The definition of remuneration has been broadly interpreted to include anything of value, including, for example, gifts, discounts, the furnishing of supplies or equipment, credit arrangements, payments of cash and waivers of payments. Several courts have interpreted the statute to mean that if any one purpose of an arrangement involving remuneration is to induce referrals or otherwise generate business involving goods or services reimbursed in whole or in part under federal healthcare programs, the statute has been violated. Violations can result in significant penalties, imprisonment and exclusion from Medicare, Medicaid and other federal healthcare programs. Exclusion of a manufacturer would preclude any federal healthcare program from paying for its products. In addition, kickback arrangements can provide the basis for an action under the Federal False Claims Act, which is discussed in more detail below.

Recognizing that the Anti-Kickback Statute is broad and may technically prohibit many innocuous or beneficial arrangements, the Office of Inspector General of Health and Human Services (“OIG”) issued a series of regulations, generally known as “safe harbors.” These safe harbors set forth provisions that, if all the applicable requirements are met, will ensure that healthcare providers and other parties will not be prosecuted under the Anti-Kickback Statute. The failure of a transaction or arrangement to fit precisely within one or more safe harbors does not necessarily mean that it is illegal or that prosecution will be pursued. However, conduct and business arrangements that do not fully satisfy an applicable safe harbor may result in increased scrutiny by government enforcement authorities such as the OIG. Arrangements that implicate the Anti-Kickback Statute, and that do not fall within a safe harbor, are analyzed by the OIG on a case-by-case basis.

Government officials have focused recent enforcement efforts on the sales and marketing activities of pharmaceutical, medical device, and other healthcare companies, and recently have brought cases against individuals or entities that allegedly offered unlawful inducements to potential or existing customers in an attempt to procure their business. Settlements of these cases by healthcare companies have involved significant fines and/or penalties and in some instances criminal pleas.

In addition to the Anti-Kickback Statute, many states have their own anti-kickback laws. Often, these laws closely follow the language of the federal law, although they do not always have the same exceptions or safe harbors. In some states, these anti-kickback laws apply with respect to all payers, including commercial health insurance companies.

False Claims Laws. Federal false claims laws prohibit any person from knowingly presenting, or causing to be presented, a false claim for payment to the federal government or knowingly making, or causing to be made, a false statement to get a false claim paid. Manufacturers can be held liable under false claims laws, even if they do not submit claims to the government, if they are found to have caused submission of false claims. Under the PPACA, a violation of the Anti-Kickback Statute is deemed to be a violation of the Federal False Claims Act. The Federal False Claims Act also includes whistleblower provisions that allow private citizens to bring suit against an entity or individual on behalf of the United States and to recover a portion of any monetary recovery. Many of the recent highly publicized settlements in the healthcare industry relating to sales and marketing practices have been cases brought under the False Claims Act. The majority of states also have adopted statutes or regulations similar to the federal false claims laws, which apply to items and services reimbursed under Medicaid and other state programs. Sanctions under these federal and state laws may include civil monetary penalties, exclusion of a manufacturer's products from reimbursement under government programs, criminal fines and imprisonment.

Privacy and Security. The Health Insurance Portability and Accountability Act of 1996 ("HIPAA"), the Health Information Technology for Economic and Clinical Health Act (the "HITECH Act"), and the rules promulgated thereunder, require certain entities, referred to as "covered entities" (including most healthcare providers and health plans), to comply with established standards, including standards regarding the privacy and security of protected health information ("PHI"). HIPAA further requires that covered entities enter into agreements meeting certain regulatory requirements with their business associates, as such term is defined by HIPAA, which, among other things, obligate the business associates to safeguard the covered entity's PHI against improper use and disclosure. In addition, a business associate may face significant statutory and contractual liability if the business associate breaches the agreement or causes the covered entity to fail to comply with HIPAA. In the course of our business operations, we have entered into several business associate agreements with certain of our customers that are covered entities. Pursuant to the terms of these business associate agreements, we have agreed, among other things, not to use or further disclose the covered entity's PHI except as permitted or required by the agreements or as required by law, to use reasonable administrative, physical, and technical safeguards to prevent prohibited disclosure of such PHI and to report to the covered entity any unauthorized uses or disclosures of such PHI. Accordingly, we incur compliance-related costs in meeting HIPAA-related obligations under business associate agreements to which we are a party. Moreover, if we fail to meet our contractual obligations under such agreements, we may incur significant liability.

In addition, HIPAA's criminal provisions potentially could be applied to a non-covered entity that aided and abetted the violation of, or conspired to violate, HIPAA, although we are unable at this time to determine conclusively whether our actions could be subject to prosecution in the event of an impermissible disclosure of protected health information to us. Also, many state laws regulate the use and disclosure of health information and require notification in the event of breach of such information. Those state laws that are more protective of individually identifiable health information are not preempted by HIPAA. Finally, in the event we change our business model and become a HIPAA-covered entity, we would be directly subject to a broader range of requirements under HIPAA, HITECH, the rules issued thereunder and their civil and criminal penalties.

Environmental, Health and Safety Regulations. We are subject to various federal, state, local and foreign laws and regulations relating to the protection of the environment, as well as public and worker health and safety. In the course of our business, we are involved in the handling, storage and disposal of certain chemicals. The laws and regulations applicable to our operations include provisions that regulate the release or discharge of hazardous or other regulated materials into the environment. These environmental laws and regulations may impose

“strict liability,” rendering a person liable without regard to negligence or fault on the part of such person. Such environmental laws and regulations may expose us to liability for the conduct of, or conditions caused by, others, or for acts that were in non-compliance with all applicable laws at the time the acts were performed. Failure to comply with applicable environmental laws could have a material adverse effect on our business. Our operations are also subject to various laws and regulations relating to occupational health and safety. We maintain safety, training and maintenance programs as part of our ongoing efforts to ensure compliance with applicable laws and regulations. Compliance with applicable health and safety laws and regulations has required and continues to require expenditures. Environmental, health and safety legislation and regulations change frequently. Changes in those regulations could have a material adverse effect on our business, operations or financial condition.

EMPLOYEES

As of December 31, 2014, we employed 3,105 people.

AVAILABLE INFORMATION

We file annual, quarterly and current reports and other information with the SEC. These materials can be inspected and copied at the SEC’s Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Copies of these materials may also be obtained by mail at prescribed rates from the SEC’s Public Reference Room at the above address. Information about the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The address of the SEC’s Internet website is www.sec.gov.

We make available, free of charge, on our Internet website, located at www.merit.com, our most recent Annual Report on Form 10-K, our most recent Quarterly Reports on Form 10-Q, any Current Reports on Form 8-K filed since our most recent Annual Report on Form 10-K, and any amendments to such reports as soon as reasonably practicable following the electronic filing of such report with the SEC. In addition, we provide electronic or paper copies of such filings free of charge upon request.

FINANCIAL INFORMATION ABOUT FOREIGN AND DOMESTIC SALES

For financial information relating to our foreign and domestic sales see Note 12 to our consolidated financial statements set forth in Item 8 of this report.

Item 1A. Risk Factors.

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

We may be unable to protect our proprietary technology or our technology may infringe on the proprietary rights of others.

We have obtained U.S. and foreign patents and filed applications for additional U.S. and foreign patents; however, there can be no assurance that any patents we hold, or for which we have applied, will provide us with any significant competitive advantages, that third parties will not challenge our patents, or that patents owned by others will not have an adverse effect on our ability to conduct business. We could incur substantial costs in preventing patent infringement, in curbing the unauthorized use of our proprietary technology by others, or in defending against similar claims of others. Since we rely on trade secrets and proprietary know-how to maintain our competitive position, there can be no assurance that others may not independently develop similar or superior technologies.

We operate in an increasingly competitive medical technology marketplace. There has been substantial litigation regarding patent and other intellectual property rights in the medical device industry and we have been

involved in litigation proceedings related to our intellectual property rights. Our activities have required, and may in the future, require us to defend against claims and actions alleging infringement of the intellectual rights of others. If a court rules against us in any patent litigation, any of several negative outcomes could occur: we could be subject to significant liabilities, we could be forced to seek licenses from third parties, or we could be prevented from marketing certain products. Any of these outcomes could have a material adverse effect on our financial condition or operating results.

We are, from time to time, involved in litigation, regulatory proceedings or other disputes. The outcomes of litigation are difficult to predict or quantify; however, an adverse outcome could limit our ability to sell certain products or reduce our operating margin on the sale of our products. The expense of defending litigation may be costly and the demands of litigation would divert our management's attention from the day-to-day operations of our business, which could adversely affect our business, results of operations or cash flows. In addition, an unfavorable outcome in litigation could negatively impact our business, results of operations or cash flows. Intellectual property infringement or other claims may be asserted against us in the future related to events not presently known to our management. Because we are self-insured with respect to intellectual property infringement claims, a significant claim against us could have a material adverse effect on our financial position or results of operations.

Our ability to remain competitive is dependent, in part, upon our ability to prevent other companies from using our proprietary technology incorporated into our products. We seek to protect our technology through a combination of patents, trademarks, and trade secrets, as well as licenses, proprietary know-how and confidentiality agreements. We may be unable, however, to prevent others from using our proprietary information, or may be unable to continue to use such information for our own purposes, for numerous reasons, including the following, any of which could have an adverse effect on our business, operations, or financial condition:

- Our issued patents may not be sufficiently broad to prevent others from copying our proprietary technology.
- Our issued patents may be challenged by third parties and deemed to be overbroad or unenforceable.
- Our products may infringe on the patents or other intellectual property rights of other parties, requiring us to alter or discontinue our manufacture or sale of such products.
- Costs associated with seeking enforcement of our patents against infringement or defending our activities against allegations of infringement, may be significant.
- Our pending patent applications may not be granted for various reasons, including over breadth or conflict with an existing patent.
- Other persons or entities may independently develop, or have developed, similar or superior technologies.
- All of our patents will eventually expire and some of our patents, including patents protecting significant elements of our technology, will expire within the next several years.

Our products may be subject to product liability claims.

Our products are used in connection with invasive procedures and in other medical contexts that entail an inherent risk of product liability claims. If medical personnel or their patients suffer injury in connection with the use of our products, whether as a result of a failure of our products to function as designed, an inappropriate design, inadequate disclosure of product-related risks or information, improper use, or for any other reason, we could be subject to lawsuits seeking significant compensatory and punitive damages. We have previously faced claims by patients claiming injuries from our products. To date, these claims have not resulted in a material negative impact on our operations or financial condition; however, patients or customers may bring claims in a number of circumstances, including if our products were misused, if our products' manufacture or design was flawed, if our products produced unsatisfactory results, or if the instructions for use and other disclosure of product-related risks for our products were found to be inadequate. The outcome of this type of personal injury litigation is difficult to assess or quantify. We maintain product liability insurance; however, there is no assurance that this coverage will be sufficient to satisfy any claim made against us. Moreover, any product liability claim brought against us could result in significant costs, could increase our product liability insurance rates, or could prevent us from securing insurance coverage in the future. As a result, any product recall or lawsuit seeking significant monetary damages may have a material adverse effect on our business, operations or financial condition.

In addition, the occurrence of such an event or claim could result in a recall of products from the market or a safety alert relating to such products. Such a recall could result in significant costs and could divert management's attention from our business.

We generally offer a limited warranty for product returns which are due to defects in quality and workmanship. We attempt to estimate our potential liability for future product returns and establish reserves on our financial statements in amounts that we believe will be sufficient to address our warranty obligations; however, our actual liability for product returns may significantly exceed the amount of our reserves. If we underestimate our potential liability for future product returns, or if unanticipated events result in returns that exceed our historical experience, our financial condition and operating results could be materially and adversely affected.

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

We entered into an Amended and Restated Credit Agreement, dated December 19, 2012, with the lenders who are or may become party thereto (collectively, the "Lenders") and Wells Fargo Bank, National Association ("Wells Fargo"), as administrative agent for the Lenders, which was amended on October 4, 2013 by a First Amendment to Amended and Restated Credit Agreement (as amended, the "Credit Agreement"). The Credit Agreement contains a number of significant covenants that could adversely affect our ability to operate our business, our liquidity or our results of operations. These covenants restrict, among other things, our incurrence of indebtedness, creation of liens or pledges on our assets, mergers or similar combinations or liquidations, asset dispositions, repurchases or redemptions of equity interests or debt, issuances of equity, payment of dividends and certain distributions, and entry into related party transactions.

Our breach of any covenant in the Credit Agreement, not otherwise cured, waived or amended, could result in a default under the applicable debt obligations and could trigger acceleration of those obligations. Any default under the Credit Agreement could adversely affect our ability to service our debt and to fund our planned capital expenditures and ongoing operations.

A significant adverse change in, or failure to comply with, governing regulations could adversely affect our business, operations or financial condition.

Substantially all of our products are "devices," as defined in the FDCA, and the manufacture, distribution, record keeping, labeling and advertisement of substantially all of our products are subject to regulation by the FDA in the United States and equivalent regulatory agencies in various foreign countries in which our products are manufactured, distributed, labeled, offered or sold. Further, we are subject to regular review and periodic inspections at our facilities with respect to compliance with the FDCA, QSR and similar requirements of foreign countries. Some physicians may be using our products in procedures that are not included in the clearance or approval of the products. If the FDA or any other foreign, federal or state enforcement agency were to conclude that we are not in compliance with applicable laws or regulations, or have improperly promoted our products for uncleared or unapproved indications, the FDA or such other agency could require a recall of products or allege that our promotional activities misbrand or adulterate our products or violate other legal requirements, which could result in investigations, prosecutions, or other civil or criminal actions.

In addition, we are subject to certain export control restrictions administered by the U.S. Department of the Treasury and may be subject to regulations administered by other regulatory agencies in various foreign countries to which our products are exported. Although we believe we are currently in material compliance with these requirements, any failure on our part to comply with all applicable current and future regulations could adversely affect our business, operations or financial condition.

International and national economic and industry conditions constantly change, and could materially and adversely affect our business and results of operations.

Our business and our results of operation are affected by many changing economic, industry and other conditions beyond our control. Actual or potential changes in international, national, regional and local economic, business and financial conditions, including recession and inflation and trade protection measures, may negatively

affect consumer preferences, perceptions, spending patterns or demographic trends, any of which could adversely affect our business or results of operations. Our customers may experience financial difficulties or be unable to borrow money to fund their operations, which may adversely impact their ability or decision to purchase or pay for our products. Disruptions in the credit markets have previously resulted, and could again result, in volatility, decreased liquidity, widening of credit spreads, and reduced availability of financing. There can be no assurance that future financing will be available to us on acceptable terms, if at all. An inability to obtain necessary additional financing on acceptable terms may have an adverse impact on us and on our ability to implement our business plan.

The medical device industry is experiencing greater scrutiny and regulation by governmental authorities.

Our medical devices and business activities are subject to rigorous regulation by the FDA and other federal, state and international governmental authorities. These authorities and members of Congress have been increasing their scrutiny over the medical device industry. In recent years, the U.S. Congress, Department of Justice, the Office of Inspector General of the Department of Health and Human Services, and the Department of Defense have issued subpoenas and other requests for information to medical device manufacturers, primarily related to financial arrangements with healthcare providers, regulatory compliance and product promotional practices. We anticipate that government authorities will continue to scrutinize our industry closely, and that additional regulation by government authorities may increase compliance costs, exposure to litigation, and other adverse effects to our operations.

Termination or interruption of relationships with our suppliers, or failure of such suppliers to perform, could disrupt our business.

We rely on raw materials, component parts, finished products and third-party services in connection with our business. For example, substantially all of our products are sterilized by only a few different entities. In addition, some of our products are manufactured or assembled by third parties. If a supplier of significant raw materials, component parts, finished goods or services were to terminate its relationship with us, or otherwise cease supplying raw materials, component parts, finished goods or services consistent with past practice, our ability to meet our obligations to our customers may be disrupted. A disruption with respect to numerous products, or with respect to a few significant products, could have a material adverse effect on our business, operations or financial condition.

We will be required to expend significant resources for research, development, testing and regulatory approval or clearance of our products under development and these products may not be developed successfully or approved for commercial use.

Most of our products under development will require significant additional research, development, engineering and preclinical and/or clinical testing, as well as regulatory approval or clearance and a commitment of significant additional resources prior to their commercialization. It is possible that they may not: be developed successfully; be proven safe or effective in clinical trials; offer therapeutic or other improvements over current treatments and products; meet applicable regulatory standards or receive regulatory approvals or clearances; be capable of production in commercial quantities at acceptable costs and in compliance with regulatory requirements; be successfully marketed; or be covered by private or public insurers.

We are currently conducting three clinical trials in an effort to obtain approval from the FDA that would enable us to expand our efforts to commercialize the QuadraSphere Microspheres, Embosphere Microspheres and EndoMAXX EVT Valved Esophageal Stent. European Union regulations do not currently require such applications for these classes of medical device. In order for us to obtain FDA approval or clearance to promote the use of QuadraSphere Microspheres, Embosphere Microspheres and EndoMAXX EVT Valved Esophageal Stent for the purposes indicated in our clinical trials, we will need to complete those trials and submit positive clinical data to the FDA. If we cannot enroll study subjects in sufficient numbers to complete the necessary studies, if there is a disruption in the supply of materials for the trials or if any other factors preclude us from completing the trials in a timely manner we will likely not be able to complete those trials. Even if we complete the three clinical trials, the FDA may require us to undertake additional testing, or the trial results may not be sufficient to obtain FDA approval or clearance for other reasons. If we do not obtain FDA approval or clearance of the product use claimed in a clinical trial, we will not be able to promote the subject product for the indicated treatment of the specific disease or condition in the United States.

We are subject to laws targeting fraud and abuse in the healthcare industry, the violation of which could adversely affect our business or financial results.

Our operations are subject to various state and federal laws targeting fraud and abuse in the healthcare industry, including the federal Anti-Kickback Statute and other anti-kickback laws, which prohibit any person from knowingly and willfully offering, paying, soliciting or receiving remuneration, directly or indirectly, to induce or reward either the referral of an individual, or the furnishing or arranging for an item or service, for which payment may be made under federal healthcare programs, such as the Medicare and Medicaid programs. Violations of these fraud and abuse-related laws are punishable by criminal or civil sanctions, including substantial fines, imprisonment and exclusion from participation in healthcare programs such as Medicare and Medicaid, any of which could adversely affect our business or financial results. Jurisdictions outside the United States may also have laws, including anti-bribery statutes, prohibiting similar conduct and providing for significant penalties.

If our employees or agents violate the U.S. Foreign Corrupt Practices Act or anti-bribery laws in other jurisdictions, we may incur fines or penalties, or experience other adverse consequences which could have a material adverse effect on our operating results or financial condition.

We are subject to the U.S. Foreign Corrupt Practices Act (“FCPA”), the U.K. Bribery Act, and similar anti-bribery laws in non-U.S. jurisdictions. These laws generally prohibit companies and their intermediaries from illegally offering things of value to any individual for the purpose of obtaining or retaining business. As we continue to expand our business activities internationally, compliance with the FCPA and other anti-bribery laws presents greater challenges to our operations. If our employees or agents violate the provisions of the FCPA or other anti-bribery laws, we may incur fines or penalties, which could have a material adverse effect on our operating results or financial condition.

Healthcare reform legislation has negatively affected our financial results and may have a material adverse effect on our business, operations or financial condition.

The PPACA was enacted into law in March 2010, and most of the core pieces of the PPACA are now in effect. Certain other provisions of the legislation are not scheduled to become effective for a number of years. There are many programs and requirements for which the details have not yet been fully established or consequences not fully understood, and it is unclear what the full impact of the legislation will be. The law imposes on medical device manufacturers a 2.3% excise tax on U.S. sales of certain medical devices. During the year ended December 31, 2014 we incurred \$3.5 million related to this tax, which reduced our gross profit by 0.7%. In addition, the costs of compliance with the PPACA’s new reporting and disclosure requirements with regard to payments or other transfers of value made to healthcare providers may have a material, negative impact on our results of operations and our cash flows. We cannot predict what healthcare programs and regulations will be ultimately implemented at the federal or state level, or the effect of any future legislation or regulation in the U.S. or internationally. However, any changes that lower reimbursements for our products or reduce medical procedure volumes could adversely affect our business and results of operations. As we cannot ultimately predict the long-term effect of the PPACA provisions as they are implemented, any changes to healthcare reform that lower reimbursement amounts for our products could adversely affect our revenues, results of operation or financial condition.

Limits on reimbursement imposed by governmental and other programs may adversely affect our business and results of operation.

The cost of a significant portion of medical care is funded by governmental, and other third-party insurance programs. Limits on reimbursement imposed by such programs may adversely affect the ability of hospitals and others to purchase our products. In addition, limitations on reimbursement for procedures which utilize our products could adversely affect our business and results of operations.

Fluctuations in foreign currency exchange rates may negatively impact our financial results.

As our operations have grown outside the United States, we have also become subject to market risk relating to foreign currency. Those fluctuations could have a negative impact on our margins and financial results.

For example, during 2014, the exchange rate between all applicable foreign currencies and the U.S. Dollar resulted in an increase in our gross revenues of approximately \$501,000.

For the year ended December 31, 2014, approximately \$98.6 million, or 19%, of our sales, were denominated in foreign currencies. If the rate of exchange between foreign currencies decline against the U.S. Dollar, we may not be able to increase the prices we charge our customers for products whose prices are denominated in those respective foreign currencies. Furthermore, we may be unable or elect not to enter into hedging transactions which could mitigate the effect of declining exchange rates. As a result, if the rate of exchange between foreign currencies declines against the U.S. Dollar, our financial results may be negatively impacted.

Increases in the price of commodity components, particularly petroleum-based products, or loss of supply could have an adverse effect on our business.

Many of our products have components that are manufactured using resins, plastics and other petroleum-based materials. Our ability to operate profitably is dependent, in large part, on the availability and pricing of these materials. The availability of these products is affected by a variety of factors beyond our control, including political uncertainty in the Middle East, and there is no assurance that crude oil supplies will not be interrupted in the future. Any such interruption could have an adverse effect on our ability to produce, or on the cost to produce, our products. Also, crude oil prices generally fluctuate based on a number of factors beyond our control, including changes in supply and demand, general economic conditions, labor costs, fuel-related transportation costs, competition, import duties, tariffs, currency exchange rates and political uncertainty in the Middle East. Our suppliers may pass some of their cost increases on to us, and if such increased costs are sustained or increase further, our suppliers may pass further cost increases on to us. In addition to the effect on resin prices, transportation costs generally increase based on the effect of higher crude oil prices, and these increased transportation costs may be passed on to us. Our ability to recover such increased costs may depend upon our ability to raise prices on our products. Due to the highly competitive nature of the healthcare industry and the cost-containment efforts of our customers and third-party payors, we may be unable to pass along cost increases through higher prices. If we are unable to fully recover these costs through price increases or offset these increases through cost reductions, we could experience lower margins and profitability, and results of operations, financial condition and cash flows could be materially and adversely affected.

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

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

Over the past several years, we completed a series of significant acquisitions, including our acquisition of BioSphere and Thomas Medical. As we grow through acquisitions, we face the additional challenges of integrating the operations, culture, information management systems and other characteristics of the acquired entity with our own. We have incurred, and will likely continue to incur, significant expenses in connection with negotiating and consummating various acquisition transactions, and we may inherit significant liabilities in connection with prospective acquisitions. In addition, we may not realize competitive advantages, synergies or other benefits anticipated in connection with any such acquisition. If we do not adequately identify targets for, or manage issues related to, our future acquisitions, such acquisitions may have an adverse effect on our business, operations or financial condition.

We depend on generating sufficient cash flow to fund our debt obligations, capital expenditures, and ongoing operations.

We are dependent on our cash on hand and free cash flow to fund our debt obligations, capital expenditures and ongoing operations. Our ability to service our debt and to fund our planned capital expenditures and ongoing

operations will depend on our ability to continue to generate cash flow. If we are unable to generate sufficient cash flow or we are unable to access additional liquidity sources, we may not be able to service or repay our debt, operate our business, respond to competitive challenges, or fund our other liquidity and capital needs.

A significant portion of our revenues is derived from a few products, procedures and/or customers.

A significant portion of our revenues is attributable to sales of our inflation devices. During the year ended December 31, 2014, sales of our inflation devices (including inflation devices sold in custom kits and through OEM channels) accounted for approximately 14% of our total revenues. Any material decline in market demand, or change in OEM supplier preference, for our inflation devices could have an adverse effect on our business, operations or financial condition.

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

We may be unable to compete in our markets, particularly if there is a significant change in relevant practices or technology.

The markets in which our products compete are highly competitive. We face competition from many companies which are larger, better established, have greater financial, technical and other resources and possess a greater market presence than we do. Such resources and market presence may enable our competition to more effectively market competing products or to market competing products at reduced prices in order to gain market share.

In addition, our ability to compete successfully is dependent, in part, upon our response to changes in technology and upon our efforts to develop and market new products which achieve significant market acceptance. Competing companies with substantially greater resources than us are actively engaged in research and development of new methods, treatments, drugs, and procedures to treat or prevent cardiovascular disease that could limit the market for our products and eventually make some of our products obsolete. A reduction in the demand for a significant number of our products, or a few key products, could have a material adverse effect on our business, operations or financial condition.

The market price of our Common Stock has been, and may continue to be, volatile.

The market price of our Common Stock has at times been, and may in the future be, volatile for various reasons, including those discussed in these risks factors, which could have a material adverse effect on our business, operations or financial condition. Other events that could cause volatility in our stock, include without limitation, quarter-to-quarter variances in our financial results; analysts' and other projections or recommendations regarding our Common Stock specifically or medical technology stocks generally; any restatement of our financial statements or any investigation of us by the SEC, the FDA or another regulatory authority; or a decline, or rise, of stock prices in the capital markets generally.

Disruption of critical information systems or material breaches in the security of our systems may adversely affect our business and customer relationships.

We rely on information technology systems to process, transmit, and store electronic information in our day-to-day operations. We also rely on our technology infrastructure, among other functions, to interact with customers and suppliers, fulfill orders and bill, collect and make payments, ship products, provide support to customers, fulfill contractual obligations and otherwise conduct business. Our internal information technology systems, as well as those systems maintained by third-party providers, may be subjected to computer viruses or other malicious codes, unauthorized access attempts, and cyber-attacks, any of which could result in data leaks or otherwise compromise our confidential or proprietary information and disrupt our operations. Cyber-attacks are becoming more sophisticated and frequent, and there can be no assurance that our protective measures will prevent

security breaches that could have a significant impact on our business, reputation and financial results. If we fail to monitor, maintain or protect our information technology systems and data integrity effectively or fail to anticipate, plan for or manage significant disruptions to these systems, we could, among other things, lose customers, have difficulty preventing fraud, have disputes with customers, physicians, other health care professionals and other employees, be subject to regulatory sanctions or penalties, incur expenses or lose revenues or suffer other adverse consequences. Any of these events could have a material adverse effect on our business, operations or financial condition.

We are dependent upon key personnel.

Our success is dependent on key management personnel, including Fred P. Lampropoulos, our Chairman of the Board, President and Chief Executive Officer. Mr. Lampropoulos is not subject to any agreement prohibiting his departure, and we do not maintain key man life insurance on his life. The loss of Mr. Lampropoulos, or of certain other key management personnel, could have a materially adverse effect on our business and operations. Our success also depends on, among other factors, the successful recruitment and retention of key operating, manufacturing, sales and other personnel.

Fluctuations in our effective tax rate may adversely affect business, financial condition and results of operation.

We are subject to taxation in numerous countries, states and other jurisdictions. Our effective tax rate is derived from a combination of applicable tax rates in the various countries, states and other jurisdictions in which we operate. In preparing our financial statements, we estimate the amount of tax that will become payable in each of these jurisdictions. Our effective tax rate may, however, differ from the estimated amount due to numerous factors, including a change in the mix of our profitability from country to country and changes in tax laws. Any of these factors could cause us to experience an effective tax rate significantly different from previous periods or our current expectations, which could have an adverse effect on our business, financial condition or results of operation.

We are subject to work stoppage, transportation and related risks.

We manufacture products at various locations in the United States and foreign countries and sell our products worldwide. We depend on third-party transportation companies to deliver supplies necessary to manufacture our products from vendors to our various facilities and to move our products to customers, operating divisions, and other subsidiaries located worldwide. Our manufacturing operations, and the operations of the transportation companies on which we depend, may be adversely affected by natural disasters or significant human events, such as a war, terrorist attack, riot, strike, slowdown or similar event. Any disruption in our manufacturing or transportation could materially and adversely affect our ability to meet customer demands or our operations.

Our failure to comply with applicable environmental laws and regulations could affect our business, operations or financial condition.

We manufacture and assemble certain products that require the use of hazardous materials that are subject to various national, federal, state and local laws and regulations governing the protection of the environment, health and safety. While the cost of compliance with such laws and regulations has not had a material adverse effect on our results of operations historically, compliance with future regulations may require additional capital investments. Additionally, because we use hazardous and other regulated materials in our manufacturing processes, we are subject to certain risks of future liabilities, lawsuits and claims resulting from any substances we manufacture, dispose of or release. Any accidental release may have an adverse effect on our business, operations or financial condition. We cannot predict what additional environmental, health and safety legislation or regulations will be enacted or become effective in the future or how existing or future laws or regulations will be administered or interpreted with respect to our operations, capital expenditures, results of operations or competitive position. Compliance with more stringent laws or regulations or adverse changes in the interpretation of existing laws or regulations by government agencies could have a material adverse effect on our business, operations or financial condition, and could require substantial expenditures.

Operations at our manufacturing facilities may be negatively impacted by certain factors, including severe weather conditions and natural disasters.

Our operations could be affected by many factors beyond our control, including severe weather conditions and natural disasters, including hurricanes, earthquakes and tornadoes. These conditions could cause substantial damage to our facilities, interrupt our production and disrupt our ability to deliver products to our customers.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our world headquarters is located in South Jordan, Utah, with our principal office for European operations located in Galway, Republic of Ireland. We also receive support for European operations from a European distribution and customer service facility located in Maastricht, The Netherlands. In addition, we lease office space in Jackson Township, New Jersey; Beijing, Hong Kong and Shanghai, China; Tokyo, Japan; Bangalore, India; and São Paulo, Brazil. Our principal manufacturing facilities are located in South Jordan and West Jordan, Utah; Pearland, Texas; Chester, Virginia; Malvern, Pennsylvania; Galway, Ireland; Paris, France; Venlo, The Netherlands; and Joinville, Brazil. Our research and development activities are conducted principally at facilities located in Galway, Ireland; South Jordan, Utah; Pearland and Dallas, Texas; Malvern, Pennsylvania; Jackson Township, New Jersey; Paris, France; and Venlo, The Netherlands. The following is an approximate summary of our facilities as of December 31, 2014 (in square feet):

	<u>Owned</u>	<u>Leased</u>	<u>Total</u>
U.S.	619,525	412,780	1,032,305
International	216,103	67,413	283,516
Total	<u>835,628</u>	<u>480,193</u>	<u>1,315,821</u>

In 2014 we completed construction of a production, clean room, warehouse and administrative office building in Pearland, Texas, which totals approximately 94,000 square feet and we completed the relocation of our Angleton, Texas manufacturing facility to the new Pearland building. The Pearland facility is designed to provide better protection from natural disasters, modernized facilities and room for future expansion.

In 2014, we executed leases for two manufacturing buildings in Tijuana, Mexico, totaling 195,987 square-feet. We will take occupancy of the first building in early 2015 and the second building, which is currently under construction, in mid-2015. We intend to commence manufacturing operations at the Mexico property during 2015 in an effort to reduce manufacturing costs. This will include manufacturing activities that were previously contracted to third parties.

We believe our existing and proposed facilities will generally be adequate for our present and future anticipated levels of operations.

Item 3. Legal Proceedings.

See Note 9 “Commitments and Contingencies” set forth in the notes to our consolidated financial statements included in Item 8 of this Annual Report.

Item 4. Mine Safety Disclosures.

The disclosure required by this item is not applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

MARKET PRICE FOR THE COMMON STOCK

Our Common Stock is traded on the NASDAQ Global Select Market under the symbol “MMSI.” The following table sets forth high and low sale prices for the Common Stock for the periods indicated.

For the year ended December 31, 2014	High	Low
First Quarter	\$ 16.49	\$ 13.25
Second Quarter	16.76	12.45
Third Quarter	15.77	11.41
Fourth Quarter	17.69	11.61

For the year ended December 31, 2013	High	Low
First Quarter	\$ 14.35	\$ 10.10
Second Quarter	12.36	9.15
Third Quarter	14.30	11.15
Fourth Quarter	17.08	12.12

As of March 2, 2015, the number of shares of Common Stock outstanding was 43,632,232 held by approximately 134 shareholders of record, not including shareholders whose shares are held in securities position listings.

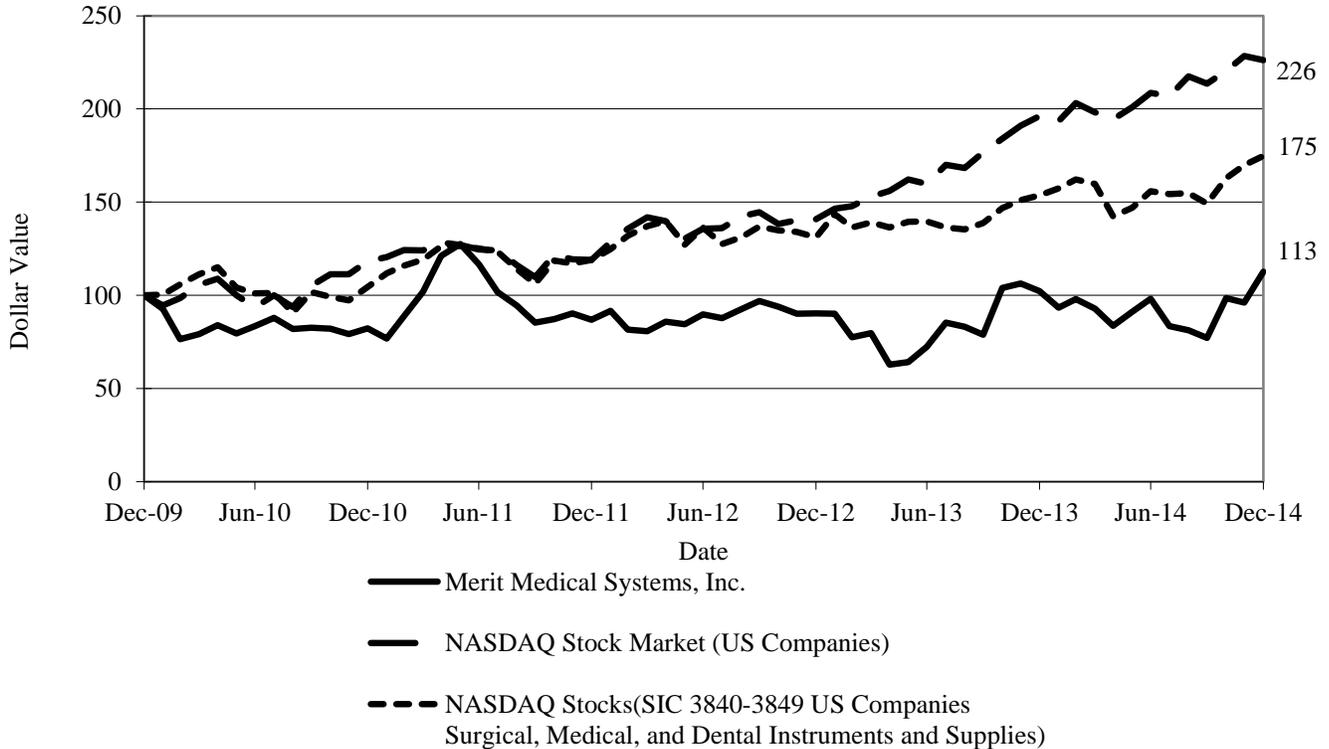
DIVIDENDS

We have never declared or paid cash dividends on the Common Stock. We presently intend to retain any future earnings for use in our business and, therefore, do not anticipate paying any dividends on the Common Stock in the foreseeable future. In addition, our Credit Agreement contains covenants prohibiting the declaration and distribution of a cash dividend at any time prior to the termination of the Credit Agreement.

PERFORMANCE GRAPH

The following graph compares the performance of the Common Stock with the performance of the NASDAQ Stock Market (U.S. Companies) and NASDAQ Stocks (SIC 3840-3849 U.S. Companies - Surgical, Medical and Dental Instruments and Supplies) for a five-year period by measuring the changes in Common Stock prices from December 31, 2009 to December 31, 2014.

**Comparison of 5 Year Cumulative Total Return
Among Merit Medical Systems, Inc., NASDAQ Stock Market (U.S.)
and NASDAQ Stocks (SIC 3840-3849)**



	12/2009	12/2010	12/2011	12/2012	12/2013	12/2014
Merit Medical Systems, Inc.	\$ 100	\$ 82	\$ 87	\$ 90	\$ 102	\$ 113
NASDAQ Stock Market (U.S. Companies)	100	118	119	141	196	226
NASDAQ Stocks (SIC 3840-3849 U.S. Companies)	100	105	119	131	154	175

The stock performance graph assumes for comparison that the value of the Common Stock and of each index was \$100 on December 31, 2009 and that all dividends were reinvested. Past performance is not necessarily an indicator of future results.

NOTE: Performance graph data is complete through last fiscal year. Performance graph with peer group uses peer group only performance (excludes only Merit). Peer group indices use beginning of period market capitalization weighting. Index Data: Calculated (or Derived) based from CRSP NASDAQ Stock Market (US Companies), Center for Research in Security Prices (CRSP®), Graduate School of Business, The University of Chicago. Copyright 2015. Used with permission. All rights reserved.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table contains information regarding our equity compensation plans as of December 31, 2014 (in thousands):

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation Plans approved by security holders	2,791 (1),(3)	\$ 12.60	703 (2),(3)

(1) Consists of 2,790,700 shares of Common Stock subject to the options granted under the Merit Medical Systems, Inc. 2006 Long-Term Incentive Plan.

(2) Consists of 255,919 shares available to be issued under the Merit Medical Systems, Inc. Qualified and Non-Qualified Employee Stock Purchase Plan and 446,800 shares available to be issued under the Merit Medical Systems, Inc. 2006 Long-Term Incentive Plan.

(3) See Note 11 to our consolidated financial statements set forth in Item 8 of this report for additional information regarding these plans.

Item 6. Selected Financial Data (in thousands, except per share amounts).

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
OPERATING DATA:					
Net Sales	\$509,689	\$449,049	\$394,288	\$359,449	\$296,755
Cost of Sales	284,467	254,682	212,296	193,981	168,257
Gross Profit	<u>225,222</u>	<u>194,367</u>	<u>181,992</u>	<u>165,468</u>	<u>128,498</u>
Operating Expenses:					
Selling, general, and administrative	147,894	128,642	122,106	104,502	87,615
Research and development	36,632	33,886	27,795	21,938	15,335
Intangible asset impairment charge	1,102	8,089	—	—	—
Contingent consideration benefit	(572)	(4,094)	—	—	—
Acquired in-process research and development	—	—	2,450	5,838	—
Goodwill impairment charge	—	—	—	—	8,344
Total operating expenses	<u>185,056</u>	<u>166,523</u>	<u>152,351</u>	<u>132,278</u>	<u>111,294</u>
Income From Operations	<u>40,166</u>	<u>27,844</u>	<u>29,641</u>	<u>33,190</u>	<u>17,204</u>
Other Income (Expense):					
Interest income	217	255	226	129	34
Interest expense	(8,829)	(8,044)	(604)	(789)	(596)
Other income (expense)	18	(216)	(1,645)	345	146
Other income (expense)—net	<u>(8,594)</u>	<u>(8,005)</u>	<u>(2,023)</u>	<u>(315)</u>	<u>(416)</u>
Income Before Income Taxes	31,572	19,839	27,618	32,875	16,788
Income Tax Expense	<u>8,598</u>	<u>3,269</u>	<u>7,908</u>	<u>9,831</u>	<u>4,328</u>
Net Income	<u>\$ 22,974</u>	<u>\$ 16,570</u>	<u>\$ 19,710</u>	<u>\$ 23,044</u>	<u>\$ 12,460</u>
Earnings Per Common Share:					
Diluted	<u>\$ 0.53</u>	<u>\$ 0.39</u>	<u>\$ 0.46</u>	<u>\$ 0.58</u>	<u>\$ 0.35</u>
Average Common Shares:					
Diluted	<u>43,409</u>	<u>42,884</u>	<u>42,610</u>	<u>39,733</u>	<u>35,976</u>
BALANCE SHEET DATA:					
Working capital	\$116,910	\$100,321	\$ 88,992	\$ 89,857	\$ 72,125
Total assets	747,165	728,283	705,309	447,017	369,480
Long-term debt, less current portion	214,490	238,854	227,566	30,737	81,538
Stockholders' equity	435,259	405,706	381,577	357,089	235,615

During the quarters ended September 30, 2014 and 2013, we recorded impairment charges of approximately \$1.1 million and \$8.1 million, respectively, related to certain intangible assets we acquired from Ostial Solutions, LLC ("Ostial"), which were offset by approximately \$874,000 and \$3.8 million, respectively, of fair value reductions to the related contingent consideration liability. We evaluate long-lived assets, including amortizing intangible assets, for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. We perform the impairment analysis at the asset group for which the lowest level of identifiable cash flows are largely independent of the cash flows of other assets and liabilities. We compared the carrying value of the amortizing intangible assets we acquired from Ostial in January 2012 to the undiscounted cash flows expected to result from the asset group and determined that the carrying amount was not recoverable. We then determined the fair value of the amortizing assets related to the Ostial acquisition based on estimated future cash flows discounted back to their present value using a discount rate that reflects the risk profiles of the underlying activities. Some of the factors that influenced our estimated cash flows were slower than anticipated sales growth in the products acquired from Ostial and uncertainty about future sales growth. The excess of the carrying value compared to the fair value was recognized as an intangible asset impairment charge.

During the quarter ended September 30, 2010, we determined that our goodwill related to our endoscopy reporting unit was impaired and we recorded an impairment charge of approximately \$8.3 million, which was offset by approximately \$3.2 million of a deferred tax asset. We determined that, based on estimated future cash flows for this reporting unit, discounted back to their present value using a discount rate that reflects the risk profiles of the underlying activities, the carrying value of this reporting unit was more than its estimated fair value. Some of the factors that influenced our estimated cash flows were slower sales growth in the products acquired from Alveolus, Inc. ("Alveolus") in March of 2009, uncertainty regarding acceptance of new products and continued operating losses for our endoscopy business segment. See Note 2 to our consolidated financial statements set forth in Item 8 of this report for information related to acquisitions, as these acquisitions impact the comparability of our annual results.

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

The following discussion and analysis of our financial condition and results of operation should be read in conjunction with the Consolidated Financial Statements and related Notes thereto, which are included in Item 8 of this report. Although our financial statements are prepared in accordance with accounting principles which are generally accepted in the United States of America ("GAAP"), our management believes that certain non-GAAP financial measures provide investors with useful information regarding the underlying business trends and performance of our ongoing operations, and can be useful for period-over-period comparisons of such operations. Included in our management's discussion and analysis of our financial condition and results of operation are references to some non-GAAP financial measures. Readers should consider these non-GAAP measures in addition to, not as a substitute for, financial reporting measures prepared in accordance with GAAP. These non-GAAP financial measures exclude some, but not all, items that may affect our net income. Additionally, these financial measures may not be comparable with similarly-titled measures of other companies.

OVERVIEW

We design, develop, manufacture and market single-use medical products for interventional and diagnostic procedures. For financial reporting purposes, we report our operations in two operating segments: cardiovascular and endoscopy. Our cardiovascular segment consists of cardiology and radiology devices, which assist in diagnosing and treating coronary arterial disease, peripheral vascular disease and other non-vascular diseases, and includes the embolotherapeutic products we acquired through our acquisition of BioSphere. Our endoscopy segment consists of gastroenterology and pulmonology devices which assist in the palliative treatment of expanding esophageal, tracheobronchial and biliary strictures caused by malignant tumors.

For the year ended December 31, 2014, we reported record sales of approximately \$509.7 million, up approximately \$60.7 million or 13.5%, over 2013 sales of approximately \$449.0 million.

Gross profit as a percentage of sales increased to 44.2% for the year ended December 31, 2014 as compared to 43.3% for the year ended December 31, 2013. The increase in gross profit as a percentage of sales in

2014 was primarily related to a favorable product mix (primarily from sales of BioSphere products) and lower average fixed overhead unit costs as the result of higher production volumes for 2014 when compared to 2013.

Net income for the year ended December 31, 2014 was approximately \$23.0 million, or \$0.53 per share, as compared to \$16.6 million, or \$0.39 per share, for the year ended December 31, 2013. The increase in net income for 2014, when compared to 2013, was primarily related to higher sales and gross profits and lower research and development expenses as a percentage of sales, as well as a smaller intangible asset impairment charge, net of the change in the contingent consideration, in 2014 (approximately \$228,000 or approximately \$141,000 net of tax), compared to 2013 (approximately \$4.3 million or approximately \$2.7 million net of tax), which was partially offset by a higher selling, general and administrative expenses and a higher effective income tax rate as a result of a higher mix of earnings from our U.S. operations, which are generally taxed at a higher rate than our foreign operations.

During the year ended December 31, 2014, we relocated the operations previously conducted in our Angleton, Texas facility to our new 94,000 square-foot facility in Pearland, Texas. During 2014, approximately \$2.5 million of operating costs were expensed into selling, general and administrative costs as opposed to cost of sales, during a transition period of approximately nine months while we completed the movement and qualification of production equipment from the old facility into the new facility. We anticipate this new facility will allow us to expand our manufacturing operations for new and existing products, increase our research and development pilot lab capacity for new product development, and enable us to capitalize on the growth opportunities we are experiencing in our international markets.

In 2014, we executed leases for two manufacturing buildings in Tijuana, Mexico, totaling approximately 196,000 square-feet. We will take occupancy of the first building in early 2015 and the second building, which is currently under construction, in mid-2015. We plan to move products currently being produced by an independent third party contract manufacturer in Tijuana, Mexico to this facility, as well as some products currently being produced in our other existing manufacturing facilities. During 2015, we plan to close down our West Jordan, Utah manufacturing site and to transition the products formerly produced at this site to our new production facility in Tijuana, Mexico and our other existing manufacturing facilities. As we begin operation of our Tijuana, Mexico production facility in 2015, we anticipate approximately \$1.5 to \$2.5 million of operating expenses that will be treated as selling, general and administrative costs, as opposed to cost of sales, during a transition period of approximately nine months. Over the next three years, we plan to move production lines from other existing production facilities to our new Tijuana facility in an effort to reduce our standard product costs and improve our overall gross profit and earnings in an effort to offset the price pressure we are experiencing for our products, particularly in the U.S., as hospitals try to reduce their rising health care costs.

Beginning January 1, 2014, we reorganized our U.S. direct sales force into two divisions: the cardiovascular division ("CVD") and the interventional procedure division ("IPD"). The CVD has 54 sales representatives, and the IPD has 37 sales representatives. We undertook the reorganization in an effort to address the diversity, complexity and focus of our product offerings. We believe the reorganization of our U.S. direct sales force has been successful thus far, as the sales growth for our U.S. direct sales force for the twelve months ended December 31, 2014 was 9.3% over the comparable period of 2013. Prior to the reorganization, our U.S. direct sales growth for the twelve months ended December 31, 2013 was 7.4% over the comparable period of 2012. We believe this reorganization to our U.S. direct sales force will continue to contribute to improved sales growth and focus of our internally developed products as well as our newly acquired products and facilitate the launch of future products, most of which have or we believe will have higher gross profit margins than the gross margins of many of our existing products. This reorganization has increased our selling, general and administrative expenses in the short term, but we believe over time it will help us improve our profitability.

We continue to focus our efforts on expanding our presence in foreign markets, particularly Europe, Middle East and Africa ("EMEA"), China, Southeast Asia, Japan and Brazil, in an effort to expand our market opportunities. These efforts have increased our selling, general and administrative expenses in the short term, but we believe over time they will help us improve our profitability. Our international sales growth was strong for the year ended December 31, 2014. In 2014, international sales were approximately \$198.3 million, or 39% of our total sales, up 20% from 2013. The increase in our international sales during 2014 was primarily related to year-over-year sales increases in EMEA of approximately \$18.1 million, up 25.1%, China of approximately \$8.8 million, up 27.4%, and Japan of approximately \$3.8 million, up 23.4%.

RESULTS OF OPERATIONS

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

	2014	2013	2012
Net sales	100%	100%	100%
Gross profit	44.2	43.3	46.2
Selling, general, and administrative expenses	29.0	28.6	31.0
Research and development expenses	7.2	7.5	7.0
Acquired in-process research and development	—	—	0.6
Intangible asset impairment charge	0.2	1.8	—
Contingent consideration benefit	(0.1)	(0.9)	—
Income from operations	7.9	6.2	7.5
Income before income taxes	6.2	4.4	7.0
Net income	4.5	3.7	5.0

Listed below are the sales by product category within each business segment for the years ended December 31, 2014, 2013 and 2012 (in thousands):

	% Change	2014	% Change	2013	% Change	2012
Cardiovascular						
Stand-alone devices	15%	\$ 143,712	10%	\$ 125,445	12%	\$ 114,242
Custom kits and procedure trays	7%	111,076	10%	103,700	3%	94,586
Inflation devices	10%	72,538	(4)%	66,182	2%	68,979
Catheters	17%	87,550	16%	75,131	17%	64,878
Embolization devices	31%	43,855	(1)%	33,395	8%	33,870
CRM/EP	17%	32,975	1,359%	28,271	—%	1,938
Total	14%	491,706	14%	432,124	9%	378,493
Endoscopy						
Endoscopy devices	6%	17,983	7%	16,925	31%	15,795
Total	14%	\$ 509,689	14%	\$ 449,049	10%	\$ 394,288

Cardiovascular Sales. Our cardiovascular sales for the year ended December 31, 2014 were approximately \$491.7 million, up 13.8%, when compared to the corresponding period for 2013 of approximately \$432.1 million. Sales for the year ended December 31, 2014 were favorably affected increased sales of our stand-alone devices (particularly our Safeguard® Pressure Assisted Device, hemostasis product line and Laureate® hydrophilic guide wires) of approximately \$18.3 million, up 14.6%, catheters (particularly our Prelude® introducer sheath product line, ReSolve® drainage catheters, guiding catheters and aspiration catheters) of approximately \$12.4 million, up 16.5%, embolization devices of approximately \$10.5 million, up 31.3%, and custom kits and procedure trays of approximately \$7.4 million, up 7.1%. Our cardiovascular sales for the year ended December 31, 2013 were approximately \$432.1 million, up 14.2%, when compared to sales in 2012 of approximately \$378.5 million. Sales for the year ended December 31, 2013 were favorably affected by sales of our cardiac CRM and EP products acquired from Thomas Medical of \$26.3 million, an increase in sales of our stand-alone devices (particularly our Merit Laureate® hydrophilic guide wires, newly-acquired Safeguard product and EN Snare endovascular snare) of approximately \$11.2 million, or 9.8%; an increase in sales of catheter devices (particularly our peritoneal dialysis catheter acquired from MediGroup, micro catheter product line, Prelude sheath product line and Maestro

microcatheter) of approximately \$10.2 million, or 15.8%; and an increase in sales of custom kits and procedure trays of approximately \$9.1 million, or 9.6%. Our cardiovascular sales for the year ended December 31, 2012 were approximately \$378.5 million, up 8.9%, when compared to the corresponding period for 2011 of approximately \$347.4 million. Cardiovascular sales for the year ended December 31, 2012 were favorably affected by an increase in sales of our stand-alone devices (particularly our hemostasis valves, guide wires and Scion Clo-SurPLUS P.A.D.) of approximately \$12.3 million, or 12.0%; an increase in sales of catheter devices (particularly our Prelude sheath product line, micro catheter product line, aspiration catheter product line and diagnostic catheters) of approximately \$9.5 million, or 17.2%; and an increase in custom kits and procedure trays of approximately \$3.1 million, or 3.3%.

Our cardiovascular sales increased during 2014, 2013 and 2012, notwithstanding the fact that the markets for many of our products experienced slight pricing declines as our customers tried to reduce their costs. Substantially all of the increases in our revenues during the three years were attributable to increased unit sales. Sales by our European direct sales force are subject to foreign currency exchange rate fluctuations between the natural currency of a foreign country and the U.S. Dollar. Foreign currency exchange rate fluctuations increased sales 0.1% in 2014 compared to 2013, increased sales by 0.2% in 2013 compared to 2012, and decreased sales by 0.7% in 2012 compared to 2011. New products and market share gains in our existing product lines were additional sources of revenue growth.

Endoscopy Sales. Our endoscopy sales for the year ended December 31, 2014 were approximately \$18.0 million, up 6.3%, when compared to sales in the corresponding period of 2013 of approximately \$16.9 million. This increase was primarily due to the increase in our sales of the EndoMAXX Fully Covered Esophageal Stent and BIG60 inflation device. Our endoscopy sales for the year ended December 31, 2013 were approximately \$16.9 million, up 7.2%, when compared to sales in the corresponding period of 2012 of approximately \$15.8 million. This increase was primarily the result of sales of our EndoMAXX Fully Covered Esophageal Stent. Our endoscopy sales for the year ended December 31, 2012 were approximately \$15.8 million, up 31.4%, when compared to sales in the corresponding period of 2011 of approximately \$12.0 million. This increase was primarily related to the increased sales of our new EndoMAXX Fully Covered Esophageal Stent.

International Sales. International sales for the year ended December 31, 2014 were approximately \$198.3 million, or 39% of total sales, up 19.6% from the same period in 2013. International sales for the year ended December 31, 2013 were approximately \$165.8 million, or 37% of total sales, up 13.3% from the same period in 2012; and international sales for the year ended December 31, 2012 were approximately \$146.3 million, or 37% of total sales, up 16.2% from the same period in 2011. The increase in our international sales during 2014 was primarily related to year-over-year sales increases in EMEA of approximately of \$18.1 million, up 25.1%, China of approximately \$8.8 million, up 27.4% and Japan of approximately \$3.8 million, up 23.4%. The increase in our international sales during 2013 was primarily related to year-over-year sales increases in China of approximately \$5.4 million, up 20.3%; Europe Direct of approximately \$5.3 million, up 13.1% (would have been up 11% in constant currency); and Russia of approximately \$2.4 million, up 54.0%. The increase in our international sales during 2012 was primarily related to year-over-year sales increases in China of approximately \$5.9 million, up 28.7%; Europe Direct of approximately \$2.7 million, up 6.7% (would have been up 16% in constant currency); United Arab Emirates ("UAE") of approximately \$2.0 million, up 55.0%; Russia of approximately \$1.8 million, up 67.0%; Japan of approximately \$1.8 million, up 14.4%; and Brazil of approximately \$1.7 million, up 50.0%.

Gross Profit. Our gross profit as a percentage of sales was 44.2%, 43.3%, and 46.2% in 2014, 2013, and 2012, respectively. The increase in gross profit as a percentage of sales in 2014 was primarily related to a favorable product mix (primarily from sales of BioSphere products) and lower average fixed overhead unit costs as the result of higher production volumes for 2014 when compared to the corresponding period of 2013. The decrease in gross profit as a percentage of sales in 2013 was primarily related to amortization of developed technology costs of 1.3% associated with the Thomas Medical and Datascope acquisitions, implementation of the Medical Device Excise Tax of 1.0% which was part of the Affordable Care Act, and higher standard costs of 0.9% resulting from lower production volumes at the beginning of 2013. Gross profit as a percentage of sales for 2012, compared to the corresponding period of 2011, remained relatively unchanged.

Selling, General and Administrative Expenses. Our selling, general and administrative expenses increased approximately \$19.3 million, or 15.0%, in 2014 compared to 2013; approximately \$6.5 million, or 5.4%, in 2013 compared to 2012; and approximately \$17.6 million, or 16.8%, in 2012 compared to 2011. The increase in selling,

general and administrative expenses as a percentage of sales of 29.0% for 2014, when compared to 2013 of 28.6%, was primarily related to headcount additions to support our domestic sales force reorganization, international sales expansions, and costs of approximately \$2.5 million associated with our new facility in Pearland, Texas, which were recorded as selling, general, and administrative expenses during a transition period of approximately nine months as we completed the movement and qualification of production equipment from the old facility to the new facility. The decrease in selling, general and administrative expenses as a percentage of sales of 28.6% for 2013, when compared to 2012 of 31.0%, was primarily related to the implementation of cost-cutting initiatives in expenses such as trade shows and conventions, 401(k) employer match and bonuses. The increase in selling, general and administrative expenses in 2012, compared to 2011, was primarily due to the hiring of additional domestic and international sales and marketing representatives, in an effort to expand our sales distribution and increase market share for new and existing products. In connection with the Thomas Medical acquisition, we incurred approximately \$2.7 million, or 0.7% of total sales, in non-recurring severance costs and acquisition costs included in selling, general and administrative costs for 2012. Selling, general and administrative expenses as a percentage of sales were 29.0%, 28.6% (28.0% if not for approximately \$489,000 and approximately \$2.4 million, respectively, of non-recurring transaction costs attributable to acquisitions and severance expenses), and 31.0% (30.3% without non-recurring Thomas Medical acquisition costs) in 2014, 2013 and 2012, respectively.

Research and Development Expenses. Research and development expenses increased by 8.1% to approximately \$36.6 million in 2014, compared to approximately \$33.9 million in 2013. The increase in research and development expenses for the year ended December 31, 2014 was primarily due to headcount additions to support new product development. Research and development expenses increased by 21.9% to approximately \$33.9 million in 2013, compared to approximately \$27.8 million in 2012. The increase in research and development expenses for the year ended December 31, 2013 was primarily due to research and development costs associated with the acquisition of the products we acquired from Thomas Medical, headcount additions for research and development to support new product development, and personnel increases in Merit's regulatory department to support registrations in foreign countries to expand international product offerings. Research and development expenses increased by 26.7% to approximately \$27.8 million in 2012, compared to approximately \$21.9 million in 2011. The increase was primarily due to headcount additions for our research and development group to support new products and personnel increases in our regulatory department to support product registrations in foreign countries as we expanded our international sales distribution. Our research and development expenses as a percentage of sales were 7.2% for 2014, 7.5% for 2013, and 7.0% for 2012. We have a pipeline of new products, and we believe that we have an effective level of capabilities and expertise to continue the flow of new internally-developed products into the future with average gross margins that are higher than our historical gross margins.

During 2012, we incurred in-process research and development charges of approximately \$2.5 million related to the purchase of several new product technologies. These technologies included the purchase of four patents for the development of future products, primarily a new cross-support catheter and an exclusive license for certain nanotechnology.

Our operating profits by business segment for the years ended December 31, 2014, 2013 and 2012 were as follows (in thousands):

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating Income (Loss)			
Cardiovascular	\$ 38,601	\$ 26,597	\$ 30,411
Endoscopy	1,565	1,247	(770)
Total operating income	<u>\$ 40,166</u>	<u>\$ 27,844</u>	<u>\$ 29,641</u>

Cardiovascular Operating Income. Our cardiovascular operating income for the year ended December 31, 2014 was approximately \$38.6 million, compared to operating income of approximately \$26.6 million for the year ended December 31, 2013. The increase was due primarily to higher sales and gross profits which were partially offset by higher operating expenses. Our cardiovascular operating income for the year ended December 31, 2013 was approximately \$26.6 million, compared to operating income of approximately \$30.4 million for the year ended December 31, 2012. The decrease was due primarily to lower gross profits during the year ended December 31,

2013. Our cardiovascular operating income for the year ended December 31, 2012 was approximately \$30.4 million, compared to operating income of approximately \$38.0 million for the year ended December 31, 2011. The decrease was due primarily to higher selling, general and administrative expenses and higher research and development expenses during the year ended December 31, 2012.

Endoscopy Net Operating Income (Loss). Our endoscopy operating income for the year ended December 31, 2014 was approximately \$1.6 million, compared to approximately \$1.2 million for the year ended December 31, 2013. The increase in operating income for 2014 compared to 2013 was largely driven by higher sales and gross profits, which were partially offset by higher operating expenses, as discussed above. Our endoscopy operating income for the year ended December 31, 2013 was approximately \$1.2 million, compared to a net operating loss of approximately \$770,000 for the year ended December 31, 2012. The generation of net operating income for 2013, compared to a net operating loss for 2012, was largely driven by higher sales and lower operating expenses. Our endoscopy net operating loss for the year ended December 31, 2012 was approximately \$770,000, compared to an operating loss of approximately \$4.8 million for the year ended December 31, 2011. The decrease in net operating loss from operations for 2012, compared to 2011, was favorably affected by higher sales and gross margins, lower research and development expenses and was negatively affected by higher selling, general and administrative expenses as we added some additional sales representatives to this segment. Excluding the abandonment of certain biomaterial technology and our covered biliary in-process research and development, which resulted in charges of \$500,000 and \$400,000, respectively, our net operating loss for the year ended December 31, 2011 would have been \$3.9 million.

Effective Tax Rate. Our effective income tax rate for 2014, 2013 and 2012 was 27.2%, 16.5% and 28.6%, respectively. The increase in the effective income tax rate for 2014 compared to 2013 is primarily related to the increased profit of our U.S. operations, which are generally taxed at a higher rate than our foreign operations. During 2013, our effective tax rate was lower as a result of a higher mix of earnings from our foreign operations, which are generally taxed at lower rates than our U.S. operations. In addition, the 2013 effective tax rate was lower than the 2012 rate, due primarily to the reinstatement in 2013 of the federal research and development credit for the 2012 tax year. The credit was reinstated by the American Taxpayer Relief Act of 2012. We recognized the federal research and development credit as a discrete benefit in 2013, the period in which the reinstatement was enacted. During 2012, our effective tax rate was negatively impacted by a valuation allowance related to a capital loss carryforward. Excluding the effect of this discrete item, our 2012 effective tax rate would have been approximately 25%. The decrease in the effective income tax rate for the year ended December 31, 2012, when compared to 2011, was the result of a higher mix of foreign income, which is primarily due to our income in Ireland being taxed at a lower rate than our U.S. income.

Other Expense. Our other expense for the years ended December 2014, 2013, and 2012 was approximately \$8.6 million, \$8.0 million, and \$2.0 million, respectively. The increase in other expenses for 2014 over 2013 was principally the result of increased interest expense related to higher interest rates associated with our outstanding debt. The increase in other expenses for 2013 over 2012 was also principally the result of higher average outstanding debt balances and the corresponding increase in interest expense. The increase in other expenses for 2012 over 2011 related primarily to the write-off of approximately \$2.4 million of a cost-method investment, which was partially offset by a gain on the sale of marketable securities of approximately \$745,000.

Net Income. Our net income for 2014, 2013, and 2012 was approximately \$23.0 million, \$16.6 million, and \$19.7 million, respectively. The increase in net income for 2014, when compared to 2013, was primarily related to higher sales and gross profits and lower research and development expenses as a percent of sales, as well as a smaller intangible asset impairment charge, net of the change in the contingent consideration, in 2014 (approximately \$228,000 or approximately \$141,000 net of tax), compared to 2013 (approximately \$4.3 million or approximately \$2.7 million net of tax), which was partially offset by a higher selling, general and administrative expenses and a higher effective income tax rate as a result of a higher mix of earnings from our U.S. operations, which are taxed at a higher rate than our foreign operations. The decrease in net income for 2013, when compared to 2012, was primarily related to lower gross profits, partially offset by lower selling, general and administrative expenses as a percent of sales. Our 2013 net income included intangible asset impairment charges, net of fair value reductions to the related contingent consideration liability, of approximately \$4.3 million or approximately \$2.7 million net of tax, severance expense of approximately \$1.8 million or approximately \$1.1 million net of tax, and Thomas Medical's mark-up on finished goods of approximately \$744,000 or approximately \$461,000 net of tax.

Excluding these charges, our 2013 net income would have been \$20.9 million, compared to \$24.0 million of net income in 2012, excluding the extraordinary items discussed below. The decrease in net income for 2012, when compared to 2011, was unfavorably affected by higher selling, general and administrative expenses and higher research and development expenses. Our 2012 net income included charges related to Thomas Medical acquisition costs including legal, accounting, investment banking, and severance of approximately \$2.7 million, or approximately \$1.6 million net of tax, an increase in cost of sales related to Thomas Medical's mark-up on finished goods of approximately \$831,000, or approximately \$508,000 net of tax, charges related to acquired in-process research and development of approximately \$2.5 million, or approximately \$1.5 million net of tax, and approximately \$631,000 related to a deferred income tax valuation allowance related to a certain capital loss carry forwards. Excluding these charges, our 2012 net income would have been approximately \$24.0 million, compared to \$27.0 million of net income in 2011, adjusted for charges related to acquired in-process research and development of approximately \$5.8 million, or approximately \$3.6 million net of tax, and an increase in the cost of goods sold related to BioSphere's mark-up on finished goods of approximately \$724,000, or approximately \$442,000 net of tax.

Total Assets. Total assets utilized in our cardiovascular segment were approximately \$734.9 million as of December 31, 2014, compared to approximately \$716.7 million as of December 31, 2013. Total assets utilized in our endoscopy segment were approximately \$12.2 million as of December 31, 2014, compared to approximately \$11.6 million as of December 31, 2013.

LIQUIDITY AND CAPITAL RESOURCES

Capital Commitments and Contractual Obligations

The following table summarizes our capital commitments and contractual obligations as of December 31, 2014, as well as the future periods in which such payments are currently anticipated to become due:

Contractual Obligations	Payment due by period (in thousands)				
	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Long-term debt	\$ 224,490	\$ 10,000	\$ 214,490	\$ —	\$ —
Interest on long-term debt (1)	17,389	6,058	11,331	—	—
Operating leases	81,467	8,870	15,903	14,068	42,626
Royalty obligations	433	50	100	100	183
Total contractual cash	<u>\$ 323,779</u>	<u>\$ 24,978</u>	<u>\$ 241,824</u>	<u>\$ 14,168</u>	<u>\$ 42,809</u>

(1) Interest payments on our variable long-term debt were forecasted using the LIBOR forward curves plus a base of 2.00%. Interest payments on a portion of our long-term debt were forecasted using a fixed rate of 2.98% as a result of an interest rate swap (see Note 8 to our consolidated financial statements set forth in Item 8 of this report).

As of December 31, 2014, we had approximately \$1.9 million of contingent consideration liability, \$1.4 million of unrecognized tax positions, and \$8.6 million of deferred compensation payable that have been recognized as liabilities that have not been included in the contractual obligations table due to uncertainty as to when such amounts may be settled.

Additional information regarding our capital commitments and contractual obligations, including royalty payments, is contained in Notes 7, 9 and 13 to our consolidated financial statements set forth in Item 8 below.

Cash Flows

At December 31, 2014 and 2013, we had cash and cash equivalents of approximately \$7.4 million and \$7.5 million respectively, of which \$6.6 million and \$6.9 million, respectively, were held by foreign subsidiaries. For each of our foreign subsidiaries, we make an evaluation as to whether the earnings are intended to be repatriated to the United States or held by the foreign subsidiary for permanent reinvestment. The cash held by our foreign subsidiaries for permanent reinvestment is used to fund the operating activities of our foreign subsidiaries and for

further investment in foreign operations. A deferred tax liability has been accrued for the earnings that are available to be repatriated to the United States.

In addition, cash held by our subsidiary in China is subject to local laws and regulations that require government approval for the transfer of such funds to entities located outside of China. As of December 31, 2014 and 2013, we had cash and cash equivalents of approximately \$5.2 million and \$6.0 million, respectively, held by our subsidiary in China.

Cash flows provided by operating activities. Our cash flow from operations was approximately \$53.3 million in 2014, an increase of approximately \$1.9 million over 2013. This increase in cash flow from operations in 2014, compared to 2013, was primarily affected by changes in cash provided by increases in net income of \$6.4 million, accrued expenses of \$6.4 million, trade payables of \$5.3 million, deferred income taxes of \$2.5 million, which was offset by changes in cash used in inventories of \$11.7 million and trade receivables of \$7.2 million. Our cash flow from operations was approximately \$51.4 million in 2013, an increase of approximately \$4.4 million over 2012. This increase in cash flow from operations in 2013, compared to 2012, was primarily affected by changes in cash provided by a decrease in inventory of \$11.3 million which was partially offset by a decrease in trade payables of \$7.7 million. Our working capital for the years ended December 31, 2014, 2013 and 2012 was approximately \$116.9 million, \$100.3 million, and \$89.0 million, respectively. The increase in working capital for 2014 from 2013 was primarily related to an increase in accounts receivable of approximately \$12.5 million and approximately \$9.4 million in inventory, offset by increases in accrued expenses of \$6.1 million and trade payables of approximately \$3.3 million. The increase in working capital for 2013 from 2012 was primarily related to an increase in accounts receivable of approximately \$6.8 million and a decrease in trade payables of approximately \$8.1 million.

During the year ended December 31, 2014, our inventory balance increased approximately \$9.4 million, from approximately \$82.4 million at December 31, 2013 to approximately \$91.8 million at December 31, 2014. The trailing twelve months inventory turns for the period ended December 31, 2014 improved to 3.27, compared to 3.05 for the twelve-month period ended December 31, 2013. During the year ended December 31, 2013, our inventory balance decreased approximately \$2.2 million, from approximately \$84.6 million at December 31, 2012 to approximately \$82.4 million at December 31, 2013. The decrease in inventory was primarily the result of an effort to improve inventory turns throughout our company.

Cash flows provided by (used in) financing activities. Our cash flow used in financing activities was approximately \$17.0 million for the year ended December 31, 2014. This compares to cash flow provided by financing activities of approximately \$14.8 million for the year ended December 31, 2013. Pursuant to the terms of the Credit Agreement, the Lenders have agreed to make revolving credit loans up to an aggregate amount of \$215 million. The Lenders also made a term loan in the amount of \$100 million, repayable in quarterly installments in the amounts provided in the Credit Agreement until the maturity date of December 19, 2017, at which time the term and revolving credit loans, together with accrued interest thereon, will be due and payable. In addition, certain mandatory prepayments are required to be made upon the occurrence of certain events described in the Credit Agreement. Wells Fargo has agreed, upon satisfaction of certain conditions, to make swingline loans from time to time through the maturity date in amounts equal to the difference between the amounts actually loaned by the Lenders and the aggregate revolving credit commitment. The Credit Agreement is collateralized by substantially all of our assets. At any time prior to the maturity date, we may repay any amounts owing under all revolving credit loans, term loans, and all swingline loans in whole or in part, subject to certain minimum thresholds, without premium or penalty, other than breakage costs.

The term loan and any revolving credit loans made under the Credit Agreement bear interest, at our election, at either (i) the base rate (described below) plus 0.25% (subject to adjustment if the Consolidated Total Leverage Ratio, as defined in the Credit Agreement, is at or greater than 2.25 to 1), (ii) the London Inter-Bank Offered Rate ("LIBOR") Market Index Rate (as defined in the Credit Agreement) plus 1.25% (subject to adjustment if the Consolidated Total Leverage Ratio, as defined in the Credit Agreement, is at or greater than 2.25 to 1), or (iii) the LIBOR Rate (as defined in the Credit Agreement) plus 1.25% (subject to adjustment if the Consolidated Total Leverage Ratio, as defined in the Credit Agreement, is at or greater than 2.25 to 1). Initially, the term loan and revolving credit loans under the Credit Agreement bear interest, at our election, at either (x) the base rate plus 1.00%, (y) the LIBOR Market Index Rate, plus 2.00%, or (z) the LIBOR Rate plus 2.00%. Swingline loans bear interest at the LIBOR Market Index Rate plus 1.25% (subject to adjustment if the Consolidated Total Leverage

Ratio, as defined in the Credit Agreement, is at or greater than 2.25 to 1). Initially, swingline loans bear interest at the LIBOR Market Index Rate plus 2.00%. Interest on each loan featuring the base rate or the LIBOR Market Index Rate is due and payable on the last business day of each calendar month; interest on each loan featuring the LIBOR Rate is due and payable on the last day of each interest period selected by us when selecting the LIBOR Rate as the benchmark for interest calculation. For purposes of the Credit Agreement, the base rate means the highest of (i) the prime rate (as announced by Wells Fargo), (ii) the federal funds rate plus 0.50%, and (iii) LIBOR for an interest period of one month plus 1.00%. Our obligations under the Credit Agreement and all loans made thereunder are fully secured by a security interest in our assets pursuant to a separate collateral agreement entered into in conjunction with the Credit Agreement.

The Credit Agreement contains customary covenants, representations and warranties and other terms customary for revolving credit loans of this nature. In this regard, the Credit Agreement requires us to not, among other things, (a) permit the Consolidated Total Leverage Ratio (as defined in the Credit Agreement) to be greater than 4.75 to 1 through the end of 2013, no more than 4.00 to 1 as of the fiscal quarter ending March 31, 2014, no more than 3.75 to 1 as of the fiscal quarter ending June 30, 2014, no more than 3.50 to 1 as of the fiscal quarter ending September 30, 2014, no more than 3.25 to 1 as of the fiscal quarter ending December 31, 2014, no more than 3.00 to 1 as of any fiscal quarter ending during 2015, no more than 2.75 to 1 as of any fiscal quarter ending during 2016, and no more than 2.50 to 1 as of any fiscal quarter ending thereafter; (b) for any period of four consecutive fiscal quarters, permit the ratio of Consolidated EBITDA (as defined in the Credit Agreement and subject to certain adjustments) to Consolidated Fixed Charges (as defined in the Credit Agreement) to be less than 1.75 to 1; (c) subject to certain adjustments, permit Consolidated Net Income (as defined in the Credit Agreement) for certain periods to be less than \$0; or (d) subject to certain conditions and adjustments, permit the aggregate amount of all Facility Capital Expenditures (as defined in the Credit Agreement) in any fiscal year beginning in 2013 to exceed \$30 million. Additionally, the Credit Agreement contains various negative covenants with which we must comply, including, but not limited to, limitations respecting: the incurrence of indebtedness, the creation of liens or pledges on our assets, mergers or similar combinations or liquidations, asset dispositions, the repurchase or redemption of equity interests and debt, the issuance of equity, the payment of dividends and certain distributions, the entrance into related party transactions and other provisions customary in similar types of agreements. As of December 31, 2014, we were in compliance with all covenants set forth in the Credit Agreement.

As of December 31, 2014, we had outstanding borrowings of approximately \$224.5 million under the Credit Agreement, with available borrowings of approximately \$27.5 million, based on the leverage ratio in the terms of the Credit Agreement. Our interest rate as of December 31, 2014 was a fixed rate of 2.98% on \$140.0 million as a result of an interest rate swap (see Note 8), a variable floating rate of 2.17% on \$84.3 million and a variable floating rate of 2.26% on approximately \$0.2 million. Our interest rate as of December 31, 2013 was a fixed rate of 4.23% on \$145.0 million as a result of an interest rate swap, variable floating rate of 3.42% on \$101.5 million and a variable floating rate of 3.50% on approximately \$2.4 million.

Cash flows used in investing activities. Our cash flow used in investing activities for the year ended December 31, 2014 was approximately \$36.2 million, compared to approximately \$68.6 million for the year ended December 31, 2013. Capital expenditures for property and equipment were approximately \$34.2 million, \$59.5 million, and \$64.6 million for the years ended December 31, 2014, 2013 and 2012, respectively. During 2013 and 2012, we spent approximately \$29.9 million, and \$31.9 million, respectively, for the construction of buildings and a parking lot as discussed below. We anticipate that we will spend approximately \$45.0 million in 2015 for property and equipment, of which we anticipate that approximately \$15.0 million will be spent on building construction.

Historically, we have incurred significant expenses in connection with facility construction, production automation, product development and the introduction of new products. We spent approximately \$5.9 million on acquisitions of certain assets and businesses in 2014 (see Note 2). From 2011 to 2013, we spent a substantial amount of cash in connection with our acquisition of certain assets and businesses (including approximately \$30.0 million to acquire assets of Datascope and Radial Assist, among other transactions during 2013; \$165.6 million (net of cash acquired) to acquire Thomas Medical and \$16.5 million to acquire the assets of Ostial, among other transactions, during 2012; and \$5 million to acquire the assets of Ash Access Technology, Inc. and AAT Catheter Technologies, LLC, among other transactions, during 2011. In 2013, we completed construction of new production facilities in South Jordan, Utah and Pearland, Texas. In 2012, we completed our 74,680 square-foot manufacturing facility in Galway, Ireland. As of December 31, 2013, we had incurred total costs of approximately \$98.7 million with respect

to those construction projects. During 2014, we financed some equipment for approximately \$5.5 million. In the event we pursue and complete significant transactions or acquisitions in the future, additional funds will likely be required to meet our strategic needs, which may require us to raise additional funds in the debt or equity markets.

We currently believe that our existing cash balances, anticipated future cash flows from operations, equipment financing and borrowings under the Credit Agreement, as amended, will be adequate to fund our current and currently planned future operations for the next twelve months and the foreseeable future.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The SEC has requested that all registrants address their most critical accounting policies. The SEC has indicated that a “critical accounting policy” is one which is both important to the representation of the registrant’s financial condition and results and requires management’s most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. We base our estimates on past experience and on various other assumptions our management believes to be reasonable under the circumstances, the results of which form the basis for making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results will differ, and may differ materially from these estimates under different assumptions or conditions. Additionally, changes in accounting estimates could occur in the future from period to period. Our management has discussed the development and selection of our most critical financial estimates with the audit committee of our Board of Directors. The following paragraphs identify our most critical accounting policies:

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

Forecasted unit demand is derived from our historical experience of product sales and production raw material usage. If market conditions become less favorable than those projected by our management, additional inventory write-downs may be required. During the years ended December 31, 2014, 2013 and 2012, we recorded obsolescence expense of approximately \$2.3 million, \$2.7 million, and \$2.3 million, respectively, and wrote off approximately \$2.4 million, \$2.8 million, and \$1.5 million, respectively. Based on this historical trend, we believe that our inventory balances as of December 31, 2014 have been accurately adjusted for any unmarketable and/or slow moving products that may expire prior to being sold.

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

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

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

Income Taxes. Under our accounting policies, we initially recognize a tax position in our financial statements when it becomes more likely than not that the position will be sustained upon examination by the tax

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

Goodwill and Intangible Assets Impairment and Contingent Consideration. We test our goodwill balances for impairment as of July 1 of each year, or whenever impairment indicators arise. We utilize several reporting units in evaluating goodwill for impairment. We assess the estimated fair value of reporting units using a combination of a market-based approach with a guideline public company method and a discounted cash flow method. If the carrying amount of a reporting unit exceeds the fair value of the reporting unit, an impairment charge is recognized in an amount equal to the excess of the carrying amount of the reporting unit goodwill over implied fair value of that goodwill. This analysis requires significant judgment, including estimation of future cash flows and the length of time they will occur, which is based on internal forecasts, and a determination of a discount rate based on our weighted average cost of capital. During our annual test of goodwill balances in 2014, which was completed during the third quarter of 2014, we determined that the fair value of each reporting unit with goodwill exceeded the carrying amount by a significant amount.

We evaluate the recoverability of intangible assets whenever events or changes in circumstances indicate that an asset's carrying amount may not be recoverable. This analysis requires similar significant judgments as those discussed above regarding goodwill, except that undiscounted cash flows are compared to the carrying amount of intangible assets to determine if impairment exists. All of our intangible assets are subject to amortization.

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

During each of the years ended December 31, 2014 and 2013, we reduced the amount of the contingent consideration liability related to the Ostial PRO Stent Positioning System, which we acquired in January 2012, by approximately \$874,000 and \$3.8 million, respectively. Under the terms of the Asset Purchase Agreement we executed with Ostial, we are obligated to make contingent purchase price payments based on a percentage of future sales of products utilizing the Ostial PRO Stent Positioning System. The adjustment to the contingent consideration liability triggered a review of our Ostial intangible assets, which resulted in an intangible asset write-down of approximately \$1.1 million and \$8.1 million related to those assets during each of the years ended December 31, 2014 and 2013, respectively. These adjustments reduced operating income for each of the years ended December 31, 2014 and 2013 by approximately \$228,000 and \$4.3 million, respectively, or approximately \$141,000 and \$2.7 million, respectively, net of tax. The reduction of the Ostial contingent consideration liability and the impairment of the Ostial intangible assets were the result of our assessment that we are not likely to generate the level of revenues from sales of the Ostial PRO Stent Positioning System that we anticipated at the acquisition date.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Our principal market risk relates to changes in the value of the Euro and GBP relative to the value of the U.S. Dollar. We also have a limited market risk relating to the Chinese Yuan, Hong Kong Dollar, and the Swedish and Danish Kroner. Our consolidated financial statements are denominated in, and our principal currency is, the U.S. Dollar. For the year ended December 31, 2014, a portion of our revenues (approximately \$98.6 million, representing approximately 19% of our aggregate revenues), was attributable to sales that were denominated in foreign currencies. All other international sales were denominated in U.S. Dollars. Our Euro-denominated revenue represents our largest single currency risk. However, our Euro-denominated expenses associated with our European operations (manufacturing sites, a distribution facility and sales representatives) provide a natural hedge. Accordingly, changes in the Euro, and in particular a strengthening of the U.S. Dollar against the Euro, will positively affect our net income. A strengthening U.S. dollar against the Euro of 10% would increase net income by approximately \$1.0 million dollars. Adversely, a weakening U.S. dollar against the Euro would have a negative impact on net income of \$1.0 million dollars. During the year ended December 31, 2014, the exchange rate between our foreign currencies against the U.S. Dollar resulted in an increase in our gross revenues of approximately \$501,000, or 0.10%, and a decrease of 0.03% in gross profit, primarily as a result of an increase in Irish manufacturing operating costs denominated in Euros.

On November 28, 2014, we forecasted a net exposure for December 31, 2014 (representing the difference between Euro and GBP-denominated receivables and Euro-denominated payables) of approximately 899,000 Euros and 572,000 GBPs. In order to partially offset such risks at November 28, 2014, we entered into a 30-day forward contract for the Euro and GBP with a notional amount of approximately 899,000 Euros and notional amount of 572,000 GBPs. On November 29, 2013, we forecasted a net exposure for December 31, 2013 (representing the difference between Euro and GBP-denominated receivables and Euro-denominated payables) of approximately 494,000 Euros and 847,000 GBPs. In order to partially offset such risks at November 29, 2013, we entered into a 30-day forward contract for the Euro and GBP with a notional amount of approximately 494,000 Euros and notional amount of 847,000 GBPs. We enter into similar transactions at various times during the year to partially offset exchange rate risks we bear throughout the year. These contracts are marked to market at each month-end. During the years ended December 31, 2014, 2013 and 2012, we recorded a net gain (loss) on all foreign currency transactions of approximately \$36,000, \$(202,000) and \$(11,000), respectively, which is included in other income in the accompanying consolidated statements of income. The fair value of our open positions at December 31, 2014 and 2013 was not material.

As discussed in Note 7 to our consolidated financial statements set forth in Item 8 of this report, as of December 31, 2014, we had outstanding borrowings of approximately \$224.5 million under the Credit Agreement. Accordingly, our earnings and after-tax cash flow are affected by changes in interest rates. As part of our efforts to mitigate interest rate risk, on December 19, 2012, we entered into a LIBOR-based interest rate swap agreement having an initial notional amount of \$150.0 million with Wells Fargo to fix the one-month LIBOR rate at 0.98%. As of December 31, 2014, a notional amount of \$140.0 million remained on the interest rate swap agreement. This instrument is intended to reduce our exposure to interest rate fluctuations and was not entered into for speculative purposes. Excluding the amount that is subject to a fixed rate under the interest rate swap and assuming the current level of borrowings remained the same, it is estimated that our interest expense and income before income taxes would change by approximately \$845,000 annually for each one percentage point change in the average interest rate under these borrowings.

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

Item 8. Financial Statements and Supplementary Data.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Merit Medical Systems, Inc. and subsidiaries (the “Company”) as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, stockholders’ equity, and cash flows for each of the three years in the period ended December 31, 2014. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 the Company as of December 31, 2014 and 2013, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of December 31, 2014, based on the criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 5, 2015, expressed an unqualified opinion on the Company’s internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Salt Lake City, Utah
March 5, 2015

MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2014 AND 2013
(In thousands)

	<u>2014</u>	<u>2013</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 7,355	\$ 7,459
Trade receivables — net of allowance for uncollectible accounts — 2014 — \$893 and 2013 — \$840	72,717	60,186
Employee receivables	173	224
Other receivables	7,507	3,279
Inventories	91,773	82,378
Prepaid expenses	5,012	5,121
Prepaid income taxes	1,273	1,232
Deferred income tax assets	6,375	5,638
Income tax refund receivables	155	398
	<u>192,340</u>	<u>165,915</u>
PROPERTY AND EQUIPMENT:		
Land and land improvements	16,830	16,240
Buildings	130,447	127,747
Manufacturing equipment	145,022	136,768
Furniture and fixtures	35,201	32,327
Leasehold improvements	16,096	13,692
Construction-in-progress	21,858	25,172
	<u>365,454</u>	<u>351,946</u>
Less accumulated depreciation	<u>(121,283)</u>	<u>(108,676)</u>
Property and equipment — net	<u>244,171</u>	<u>243,270</u>
OTHER ASSETS:		
Intangible assets:		
Developed technology — net of accumulated amortization — 2014 — \$27,982 and 2013 — \$17,602	79,172	91,052
Other — net of accumulated amortization — 2014 — \$22,480 and 2013 — \$18,870	31,136	28,935
Goodwill	184,464	184,505
Deferred income tax assets	9	800
Other assets	15,873	13,806
	<u>310,654</u>	<u>319,098</u>
TOTAL	<u><u>\$ 747,165</u></u>	<u><u>\$ 728,283</u></u>

See notes to consolidated financial statements.

(continued)

MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2014 AND 2013
(In thousands)

	<u>2014</u>	<u>2013</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade payables	\$ 29,810	\$ 26,511
Accrued expenses	33,826	27,702
Current portion of long-term debt	10,000	10,000
Advances from employees	381	292
Income taxes payable	1,413	1,089
	<u>75,430</u>	<u>65,594</u>
LONG-TERM DEBT	214,490	238,854
DEFERRED INCOME TAX LIABILITIES	6,385	2,548
LIABILITIES RELATED TO UNRECOGNIZED TAX BENEFITS	1,353	2,031
DEFERRED COMPENSATION PAYABLE	8,635	7,833
DEFERRED CREDITS	2,891	3,065
OTHER LONG-TERM OBLIGATIONS	2,722	2,652
	<u>311,906</u>	<u>322,577</u>
COMMITMENTS AND CONTINGENCIES (Notes 2, 7, 8, 9 and 13)		
STOCKHOLDERS' EQUITY:		
Preferred stock — 5,000 shares authorized as of December 31, 2014 and 2013; no shares issued		
Common stock, no par value; shares authorized — 2014 and 2013 - 100,000; issued and outstanding as of December 31, 2014 - 43,614 and December 31, 2013 - 42,846	187,709	177,775
Retained earnings	249,962	226,988
Accumulated other comprehensive income (loss)	(2,412)	943
	<u>435,259</u>	<u>405,706</u>
TOTAL	<u>\$ 747,165</u>	<u>\$ 728,283</u>

See notes to consolidated financial statements.

(concluded)

MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012
(In thousands, except per share amounts)

	<u>2014</u>	<u>2013</u>	<u>2012</u>
NET SALES	\$ 509,689	\$ 449,049	\$ 394,288
COST OF SALES	284,467	254,682	212,296
GROSS PROFIT	<u>225,222</u>	<u>194,367</u>	<u>181,992</u>
OPERATING EXPENSES:			
Selling, general, and administrative	147,894	128,642	122,106
Research and development	36,632	33,886	27,795
Intangible asset impairment charges	1,102	8,089	—
Contingent consideration benefit	(572)	(4,094)	—
Acquired in-process research and development	—	—	2,450
Total operating expenses	<u>185,056</u>	<u>166,523</u>	<u>152,351</u>
INCOME FROM OPERATIONS	<u>40,166</u>	<u>27,844</u>	<u>29,641</u>
OTHER INCOME (EXPENSE):			
Interest income	217	255	226
Interest expense	(8,829)	(8,044)	(604)
Other income (expense) — net	18	(216)	(1,645)
Other expense — net	<u>(8,594)</u>	<u>(8,005)</u>	<u>(2,023)</u>
INCOME BEFORE INCOME TAXES	31,572	19,839	27,618
INCOME TAX EXPENSE	<u>8,598</u>	<u>3,269</u>	<u>7,908</u>
NET INCOME	<u>\$ 22,974</u>	<u>\$ 16,570</u>	<u>\$ 19,710</u>
EARNINGS PER COMMON SHARE:			
Basic	<u>\$ 0.53</u>	<u>\$ 0.39</u>	<u>\$ 0.47</u>
Diluted	<u>\$ 0.53</u>	<u>\$ 0.39</u>	<u>\$ 0.46</u>
AVERAGE COMMON SHARES:			
Basic	<u>43,143</u>	<u>42,607</u>	<u>42,176</u>
Diluted	<u>43,409</u>	<u>42,884</u>	<u>42,610</u>

See notes to consolidated financial statements.

MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012
(In thousands)

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Net income	\$22,974	\$16,570	\$19,710
Other comprehensive income (loss):			
Unrealized gain on marketable securities:			
Unrealized holding gain arising during the period	—	—	551
Less income tax (expense)	—	—	(215)
Reclassification adjustment for gains included in net income	—	—	(846)
Less income tax benefit	—	—	330
Interest rate swap	(630)	2,992	(1,789)
Less income tax benefit (expense)	245	(1,164)	696
Foreign currency translation adjustment	(3,160)	292	(74)
Less income tax benefit	190	5	15
Total other comprehensive income (loss)	<u>(3,355)</u>	<u>2,125</u>	<u>(1,332)</u>
Total comprehensive income	<u>\$19,619</u>	<u>\$18,695</u>	<u>\$18,378</u>

See notes to consolidated financial statements.

MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012
(In thousands)

	<u>Total</u>	<u>Common Stock</u>		<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>
		<u>Shares</u>	<u>Amount</u>		
BALANCE — January 1, 2012	\$ 357,089	42,008	\$ 166,231	\$ 190,708	\$ 150
Net income	19,710			19,710	
Other comprehensive income	(1,332)				(1,332)
Excess tax benefits from stock-based compensation	877		877		
Stock-based compensation expense	1,917		1,917		
Options exercised	5,156	610	5,156		
Issuance of common stock under Employee Stock Purchase Plans	430	33	430		
Shares surrendered in exchange for payment of payroll tax liabilities	(439)	(31)	(439)		
Shares surrendered in exchange for the exercise of stock options	(1,831)	(131)	(1,831)		
BALANCE — December 31, 2012	<u>381,577</u>	<u>42,489</u>	<u>172,341</u>	<u>210,418</u>	<u>(1,182)</u>
Net income	16,570			16,570	
Other comprehensive income	2,125				2,125
Excess tax benefits from stock-based compensation	259		259		
Stock-based compensation expense	1,467		1,467		
Options exercised	3,733	413	3,733		
Issuance of common stock under Employee Stock Purchase Plans	448	37	448		
Shares surrendered in exchange for payment of payroll tax liabilities	(21)	(48)	(21)		
Shares surrendered in exchange for exercise of stock options	(452)	(45)	(452)		
BALANCE — December 31, 2013	<u>405,706</u>	<u>42,846</u>	<u>177,775</u>	<u>226,988</u>	<u>943</u>
Net income	22,974			22,974	
Other comprehensive income	(3,355)				(3,355)
Excess tax benefits from stock-based compensation	576		576		
Stock-based compensation expense	1,460		1,460		
Options exercised	9,638	878	9,638		
Issuance of common stock under Employee Stock Purchase Plans	450	33	450		
Shares surrendered in exchange for payment of payroll tax liabilities	(249)	(16)	(249)		
Shares surrendered in exchange for exercise of stock options	(1,941)	(127)	(1,941)		
BALANCE — December 31, 2014	<u>\$ 435,259</u>	<u>43,614</u>	<u>\$ 187,709</u>	<u>\$ 249,962</u>	<u>\$ (2,412)</u>

See notes to consolidated financial statements.

MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012
(In thousands)

	<u>2014</u>	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 22,974	\$ 16,570	\$ 19,710
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	35,929	32,542	22,534
Losses on sales and/or abandonment of property and equipment	916	177	204
Write-off of patents and intangible assets	1,427	8,208	55
Impairment of cost-method investment	—	—	2,368
Acquired in-process research and development	—	—	2,450
Amortization of deferred credits	(175)	(139)	(174)
Amortization of long-term debt issuance costs	987	845	—
Realized gain on sale of marketable securities	—	—	(745)
Deferred income taxes	3,870	1,359	549
Excess tax benefits from stock-based compensation	(576)	(259)	(877)
Stock-based compensation expense	1,460	1,467	1,917
Changes in operating assets and liabilities, net of effects from acquisitions:			
Trade receivables	(13,599)	(6,445)	(6,576)
Employee receivables	46	(53)	(11)
Other receivables	(3,042)	(609)	(760)
Inventories	(9,396)	2,334	(8,965)
Prepaid expenses	(58)	(758)	736
Prepaid income taxes	(41)	18	(367)
Income tax refund receivables	11	1,267	452
Other assets	(1,388)	(1,806)	(1,178)
Trade payables	5,326	(5)	7,721
Accrued expenses	6,137	(276)	4,448
Advances from employees	142	(277)	317
Income taxes payable	1,083	255	2,057
Liabilities related to unrecognized tax benefits	(76)	(520)	(209)
Deferred compensation payable	802	1,877	1,371
Other long-term obligations	566	(4,399)	(89)
Total adjustments	<u>30,351</u>	<u>34,803</u>	<u>27,228</u>
Net cash provided by operating activities	<u>53,325</u>	<u>51,373</u>	<u>46,938</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures for:			
Property and equipment	(34,181)	(59,505)	(64,643)
Intangible assets	(1,714)	(1,617)	(1,460)
Proceeds from sale-leaseback transactions	5,521	24,000	—
Proceeds from the sale of marketable securities	—	—	3,248
Proceeds from the sale of property and equipment	98	113	43
Cash paid in acquisitions, net of cash acquired	<u>(5,927)</u>	<u>(31,600)</u>	<u>(192,762)</u>
Net cash used in investing activities	<u>(36,203)</u>	<u>(68,609)</u>	<u>(255,574)</u>

See notes to consolidated financial statements.

(continued)

MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012
(In thousands)

	<u>2014</u>	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of common stock	\$ 8,146	\$ 3,729	\$ 3,755
Proceeds from issuance of long-term debt	144,018	176,764	330,630
Payments on long-term debt	(169,392)	(165,477)	(123,801)
Proceeds from industrial assistant grants	—	389	1,029
Excess tax benefits from stock-based compensation	576	259	877
Long-term debt issuance costs	—	(798)	(3,706)
Contingent payments related to acquisitions	(67)	(77)	(57)
Payment of taxes related to an exchange of common stock	(249)	(21)	(439)
	<u>(16,968)</u>	<u>14,768</u>	<u>208,288</u>
Net cash provided by (used in) financing activities			
EFFECT OF EXCHANGE RATES ON CASH	<u>(258)</u>	<u>208</u>	<u>(61)</u>
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(104)	(2,260)	(409)
CASH AND CASH EQUIVALENTS:			
Beginning of year	<u>7,459</u>	<u>9,719</u>	<u>10,128</u>
End of year	<u>\$ 7,355</u>	<u>\$ 7,459</u>	<u>\$ 9,719</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash paid during the year for:			
Interest (net of capitalized interest of \$389, \$1,038 and \$456, respectively)	<u>\$ 9,014</u>	<u>\$ 7,877</u>	<u>\$ 434</u>
Income taxes	<u>\$ 3,289</u>	<u>\$ 735</u>	<u>\$ 5,277</u>
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES			
Property and equipment purchases in accounts payable	<u>\$ 2,896</u>	<u>\$ 4,055</u>	<u>\$ 12,372</u>
Receivable due for sale of equipment	<u>\$ 1,256</u>	<u>\$ —</u>	<u>\$ —</u>
Acquisition of customer list in exchange for a settlement of trade receivables	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 377</u>
Acquisition purchases in accrued expenses and other long-term obligations	<u>\$ 1,000</u>	<u>\$ 350</u>	<u>\$ 5,149</u>
Merit common stock surrendered (127, 45 and 131 shares, respectively) in exchange for exercise of stock options	<u>\$ 1,941</u>	<u>\$ 452</u>	<u>\$ 1,831</u>
See notes to consolidated financial statements.			(concluded)

MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014, 2013 and 2012

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization. Merit Medical Systems, Inc. (“Merit,” “we,” or “us”) designs, develops, manufactures and markets single-use medical products for interventional and diagnostic procedures. For financial reporting purposes, we report our operations in two operating segments: cardiovascular and endoscopy. Our cardiovascular segment consists of cardiology and radiology devices which assist in diagnosing and treating coronary arterial disease, peripheral vascular disease and other non-vascular diseases and includes the embolotherapeutic products and the cardiac rhythm management and electrophysiology (“CRM/EP”) devices we acquired through our acquisition of Thomas Medical as described in Note 2 below. Our endoscopy segment consists of gastroenterology and pulmonology medical devices which assist in the palliative treatment of expanding esophageal, tracheobronchial and biliary strictures caused by malignant tumors.

We manufacture our products in plants located in the United States, The Netherlands, Ireland and France. We export sales to dealers and have direct sales forces in the United States, Western Europe and China (see Note 12). Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The following is a summary of the more significant of such policies.

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

Principles of Consolidation. The consolidated financial statements include our wholly-owned subsidiaries. Intercompany balances and transactions have been eliminated.

Cash and Cash Equivalents. For purposes of the statements of cash flows, we consider interest bearing deposits with an original maturity date of three months or less to be cash equivalents.

Receivables. The allowance for uncollectible accounts receivable is based on our historical bad debt experience and on management’s evaluation of our ability to collect individual outstanding balances.

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

Goodwill and Intangible Assets. We test goodwill balances as of July 1 for impairment on an annual basis during the third quarter, or whenever impairment indicators arise. We utilize several reporting units in evaluating goodwill for impairment. We assess the estimated fair value of reporting units using a combination of a market-based approach with a guideline public company method and a discounted cash flow method. If the carrying amount of a reporting unit exceeds the fair value of the reporting unit, an impairment charge is recognized in an amount equal to the excess of the carrying amount of the reporting unit goodwill over the implied fair value of that goodwill.

We evaluate the recoverability of intangible assets periodically and take into account events or circumstances that warrant revised estimates of useful lives or that indicate that impairment exists. All of our intangible assets are subject to amortization. Intangible assets are amortized on a straight-line basis, except for customer lists, which are generally amortized on an accelerated basis, over the following useful lives:

Customer lists	2 - 15 years
Developed technology	5 - 15 years
Distribution agreements	3 - 12 years
License agreements and trademarks	3 - 15 years
Covenant not to compete	3 - 10 years
Patents	17 years
Royalty agreements	5 years

Long-Lived Assets. We periodically review the carrying amount of our long-lived assets for impairment. An asset is considered impaired when estimated future cash flows are less than the carrying amount of the asset. In the event the carrying amount of such asset is not considered recoverable, the asset is adjusted to its fair value. Fair value is generally determined based on discounted future cash flow. There were no impairments of long-lived assets during the years ended December 31, 2014, 2013 and 2012, except as noted in Note 4.

Property and Equipment. Property and equipment is stated at the historical cost of construction or purchase. Construction costs include interest costs capitalized during construction. Maintenance and repairs of property and equipment are charged to operations as incurred. Leasehold improvements are amortized over the lesser of the base term of the lease or estimated life of the leasehold improvements. Construction-in-process consists of new buildings and various production equipment being constructed internally and externally. Assets in construction-in-process will commence depreciating once the asset has been placed in service. Depreciation is computed using the straight-line method over estimated useful lives as follows:

Buildings	40 years
Manufacturing equipment	4 - 20 years
Furniture and fixtures	3 - 20 years
Land improvements	10 - 20 years
Leasehold improvements	4 - 25 years

Depreciation expense related to property and equipment for the years ended December 31, 2014, 2013 and 2012 was approximately \$21.0 million, \$18.4 million, and \$15.0 million, respectively.

Deferred Compensation. We have a deferred compensation plan that permits certain management employees to defer a portion of their salary until the future. We established a Rabbi trust to finance obligations under the plan with corporate-owned variable life insurance contracts. The cash surrender value totaled approximately \$9.0 million and \$7.8 million at December 31, 2014 and 2013, respectively, which is included in other assets in our consolidated balance sheets. We have recorded a deferred compensation payable of approximately \$8.6 million and \$7.8 million at December 31, 2014 and 2013, respectively, to reflect the liability to our employees under this plan.

Other Assets. Other assets consist of our deferred compensation plan cash surrender value discussed above, unamortized debt issuance costs, two investments in privately-held companies accounted for at cost, a long-term income tax refund receivable, and deposits related to various leases.

Deferred Credits. Deferred credits consist of grant money received from the Irish government. Grant money is received for a percentage of expenditures on eligible property and equipment, specific research and development projects and costs of hiring and training employees. Amounts related to the acquisition of property and equipment are amortized as a reduction of depreciation expense over the lives of the corresponding property and equipment.

Revenue Recognition. We sell our single-use disposable medical products through a direct sales force in the U.S., through OEM relationships, custom procedure tray manufacturers and a combination of direct sales force and independent distributors in international markets. Revenues from these customers are recognized when all of the following have occurred: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) the price is fixed or determinable and (iv) the ability to collect is reasonably assured. These criteria are generally satisfied at the time of shipment when risk of loss and title passes to the customer. We have certain written agreements with group purchasing organizations to sell our products to participating hospitals. These agreements have destination shipping terms which require us to defer the recognition of a sale until the product has arrived at the participating hospitals. We reserve for sales returns, including returns related to defective products (i.e. warranty liability), as a reduction in net sales, based on our historical experience. We also offer sales rebates and discounts to purchasing groups. These reserves are recorded as a reduction in net sales and are not considered material to our consolidated statements of income for the years ended December 31, 2014, 2013 and 2012. In addition, we invoice our customers for taxes assessed by governmental authorities such as sales tax and value added taxes. We present these taxes on a net basis.

Shipping and Handling. We bill our customers for shipping and handling charges, which are included in net sales for the applicable period, and the corresponding shipping and handling expense is reported in cost of sales.

Cost of Sales. We include product costs (i.e. material, direct labor and overhead costs), shipping and handling expense, medical device excise tax, product royalty expense, developed technology amortization expense, production-related depreciation expense and product license agreement expense in cost of sales.

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

Income Taxes. We utilize an asset and liability approach for financial accounting and reporting for income taxes. Deferred income taxes are provided for temporary differences in the basis of assets and liabilities as reported for financial statement and income tax purposes. Deferred income taxes reflect the tax effects of net operating loss and tax credit carryovers and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Realization of certain deferred tax assets is dependent upon future earnings, if any. We make estimates and judgments in determining the need for a provision for income taxes, including the estimation of our taxable income for each full fiscal year.

Earnings per Common Share. Net income per common share is computed by both the basic method, which uses the weighted average number of our 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.

Fair Value Measurements. The fair value of a financial instrument is the amount that could be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial assets are marked to bid prices and financial liabilities are marked to offer prices. Fair value measurements do not include transaction costs. A fair value hierarchy is used to prioritize the quality and reliability of the information used to determine fair values. Categorization within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The fair value hierarchy is defined into the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market-based inputs or inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

Stock-Based Compensation. We recognize the fair value compensation cost relating to share-based payment transactions in accordance with Accounting Standards Codification (“ASC”) 718, *Compensation — Stock Compensation*. Under the provisions of ASC 718, share-based compensation cost is measured at the grant date, based on the fair value of the award and is recognized over the employee’s requisite service period, which is generally the vesting period. The fair value of our stock options is estimated using a Black-Scholes option valuation model. Stock-based compensation expense for the years ended December 31, 2014, 2013 and 2012 was approximately \$1.5 million, \$1.5 million and \$1.9 million, respectively.

Concentration of Credit Risk. Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. We provide credit, in the normal course of business, primarily to hospitals and independent third-party custom procedure tray manufacturers and distributors. We perform ongoing credit evaluations of our customers and maintain allowances for potential credit losses. Sales to our single largest customer approximated 3%, 3% and 4% of total sales for the years ended December 31, 2014, 2013 and 2012, respectively.

Foreign Currency. The financial statements of our foreign subsidiaries are measured using local currencies as the functional currency, with the exception of Ireland which uses the U.S. Dollar as its 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 (loss) as a separate component of stockholders' equity. Foreign currency transactions denominated in a currency other than the entity's functional currency are included in determining net income for the period. Such foreign currency transaction gains and losses have not been significant for purposes of our financial reporting.

Derivatives. We use forward contracts to mitigate our exposure to volatility in foreign exchange rates, and we use an interest rate swap to hedge changes in the benchmark interest rate related to our Credit Agreement described in Note 7. All derivatives are recognized in the consolidated balance sheets at fair value. Classification of each hedging instrument is based upon whether the maturity of the instrument is less than or greater than 12 months. We do not purchase or hold derivative financial instruments for speculative or trading purposes (see Note 8).

Accumulated Other Comprehensive Income (Loss). As of December 31, 2014, accumulated other comprehensive income (loss) included approximately \$350,000 (net of tax of \$(223,000)) related to an interest rate swap and \$(2.8) million (net of tax of \$202,000) related to foreign currency translation. As of December 31, 2013, accumulated other comprehensive income (loss) included approximately \$735,000 (net of tax of \$(468,000)) related to an interest rate swap and \$208,000 (net of tax of \$12,000) related to foreign currency translation.

Recently Issued Financial Accounting Standards. In August 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update (ASU) 2014-15, which requires management to assess, at each annual and interim reporting period, the entity's ability to continue as a going concern within one year after the date that the financial statements are issued and provide related disclosures. The guidance is effective for the year ended December 31, 2016, with early adoption permitted. We have assessed the impact of this standard and do not believe that it will have a material impact on our consolidated financial statements or disclosures upon adoption.

In May 2014, the FASB issued authoritative guidance amending the FASB Accounting Standards Codification and creating a new Topic 606, *Revenue from Contracts with Customers*. The new guidance clarifies the principles for recognizing revenue and develops a common revenue standard for U.S. GAAP applicable to revenue transactions. This guidance provides that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The existing industry guidance will be eliminated when the new guidance becomes effective and annual disclosures will be substantially revised. The amendments in the new guidance are effective for annual reporting periods beginning after December 15, 2016, including interim periods within those reporting periods. Early application is not permitted. We intend to adopt the new standard effective January 1, 2017. This update provides for two transition methods to the new guidance: a full retrospective or a modified retrospective adoption. We are evaluating the transition methods and the anticipated impact the application of this guidance will have on our financial position, results of operations and cash flows.

In July 2013, the FASB issued authoritative guidance which concludes that, under certain circumstances, unrecognized tax benefits should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carry-forward, a similar tax loss, or a tax credit carry-forward. We adopted this guidance early, as permitted, for the fiscal year ended December 31, 2013. The adoption of this guidance did not have a material effect on our consolidated financial statements.

2. ACQUISITIONS

On November 25, 2014, we entered into a marketing, distribution, and license agreement with a medical device company for the right to market and distribute certain introducer shaft products. As of December 31, 2014, we had paid \$624,800 in connection with this agreement. We are obligated to pay an additional €1.5 million if certain milestones set forth in the agreement are reached. We accounted for the transaction as an asset purchase. We recorded the amount paid on the closing date as a license agreement asset, which we intend to amortize over a period of 10 years.

On August 8, 2014, we entered into a license agreement and a distribution agreement with a medical device company for the right to manufacture and sell certain percutaneous transluminal angioplasty balloon catheter products. As of December 31, 2014, we had paid \$3.0 million and recorded an additional \$1.0 million obligation to accrued liabilities in connection with these two agreements. We are obligated to pay an additional \$3.0 million if certain milestones set forth in the license agreement are reached. We accounted for the transaction as an asset purchase. Of the purchase price paid as of December 31, 2014, \$200,000 was allocated to a distribution agreement asset, which we are amortizing over a period of 3 years, and \$3.8 million was allocated to a license agreement asset, which we intend to amortize over a period of 12 years.

On July 15, 2014, we entered into a purchase agreement to acquire certain assets from a limited liability company. In connection with this agreement, we paid approximately \$752,000. The primary assets acquired from this entity were manufacturing and export licenses. We accounted for the transaction as an asset purchase. We recorded the amount paid on the closing date as a license agreement asset, which we intend to amortize over a period of 10 years.

On May 8, 2014, we purchased 737,628 shares of the common stock of G Medix, Inc., a Minnesota corporation ("G Medix"), for an aggregate price of approximately \$1.8 million. Our purchase of the G Medix shares, which represents an ownership interest in G Medix of approximately 19%, has been accounted for at cost. We made a refundable advance to G Medix of \$350,000 in 2013 that was credited against the final purchase amount, resulting in \$1.45 million of cash purchase price paid to G Medix during 2014. G Medix develops catheter-based therapeutic devices.

On December 20, 2013, we acquired a license to sell our Hepasphere products in China. We paid \$700,000 to purchase the license, \$350,000 of which was included in accrued liabilities at December 31, 2013. The purchase price was allocated to a license agreement for \$700,000, which we are amortizing over four years.

On October 4, 2013, we acquired certain assets contemplated by an Asset Purchase Agreement we executed with Datascope Corp. ("Datascope"), a Delaware corporation. The primary assets we acquired consist of the Safeguard® Pressure Assisted Device, which assists in obtaining and maintaining hemostasis after a femoral procedure, and the Air-Band™ Radial Compression Device, which is indicated to assist hemostasis of the radial artery puncture site while maintaining visibility. We accounted for this acquisition as a business combination. We made a payment of approximately \$27.5 million to acquire these assets. Acquisition-related costs during the year ended December 31, 2013, which were included in selling, general, and administrative expenses in the accompanying consolidated statements of income, were not material. The results of operations related to this acquisition have been included in our cardiovascular segment since the acquisition date. During the year ended December 31, 2013, our net sales of Datascope products were approximately \$1.6 million. It is not practical to separately report the earnings related to the Datascope acquisition, as we cannot split out sales costs related to Datascope products, principally because our sales representatives are selling multiple products (including Datascope products) in the cardiovascular business segment.

The total purchase price was allocated as follows (in thousands):

Assets Acquired	
Inventories	\$ 478
Intangibles	
Developed technology	18,200
Customer lists	390
Trademarks	320
Goodwill	8,112
	<hr/>
Total assets acquired	<u>\$ 27,500</u>

With respect to the Datascope assets, we are amortizing developed technology over 10 years and customer lists on an accelerated basis over six years. While U.S. trademarks can be renewed indefinitely, we currently estimate that we will generate cash flow from the acquired trademarks for a period of 15 years from the acquisition date. The total weighted-average amortization period for these acquired intangible assets is 10 years.

On October 4, 2013, we acquired certain assets contemplated by an Asset Purchase Agreement with Radial Assist, LLC ("Radial Assist"), a Georgia limited liability company. The primary assets we acquired consist of the Rad Board, Rad BoardXtra, Rad Trac, and Rad Rest devices. The Rad Board is designed to provide a larger work space for physicians and an area for patients to rest their arms during radial procedures. The Rad Board Xtra is designed to work in conjunction with the Rad Board by extending the usable work space and allowing for a 90-degree perpendicular extension of the arm for physicians who prefer doing procedures at a 90-degree angle. The Rad Trac is also designed to be used with the Rad Board and facilitates placement and removal of the Rad Board with the patient still on the table. The Rad Rest is a disposable, single-use product designed to stabilize the arm by ergonomically supporting the elbow, forearm and wrist during radial procedures. We accounted for this acquisition as a business combination. We made a payment of approximately \$2.5 million to acquire these assets. Acquisition-related costs during the year ended December 31, 2013, which were included in selling, general, and administrative expenses in the accompanying consolidated statements of income, were not material. The results of operations related to this acquisition have been included in our cardiovascular segment since the acquisition date. During the year ended December 31, 2013, our net sales of Radial Assist products were approximately \$191,000. It is not practical to separately report the earnings related to the Radial Assist acquisition, as we cannot split out sales costs related to Radial Assist products, principally because our sales representatives are selling multiple products (including Radial Assist products) in the cardiovascular business segment. The total purchase price was allocated as follows (in thousands):

Assets Acquired	
Inventories	\$ 16
Intangibles	
Developed technology	1,520
Customer lists	20
Trademarks	40
Goodwill	904
	<hr/>
Total assets acquired	<u>\$ 2,500</u>

With respect to the Radial Assist assets, we are amortizing developed technology over 10 years and customer lists on an accelerated basis over six years. While U.S. trademarks can be renewed indefinitely, we currently estimate that we will generate cash flow from the acquired trademarks for a period of 15 years from the acquisition date. The total weighted-average amortization period for these acquired intangible assets is 10.07 years.

In connection with our Datascope and Radial Assist acquisitions, we paid approximately \$798,000 in long-term debt issuance costs to Wells Fargo Bank related to the amendment of our Credit Agreement (see Note 7). These costs consist primarily of loan origination fees that we are amortizing over the remaining contract term of our Credit Agreement, which matures December 19, 2017.

On September 10, 2013, we entered into a license agreement with a medical device company for the exclusive rights to sell certain biocompatible gloves, instrument cleaners, and surgical wipes. We paid \$250,000 for the use of the license. We are obligated to pay an additional \$250,000 within 30 days of our first commercial sale of the product. The purchase price was allocated to a license agreement for \$250,000, which we intend to amortize over 10 years.

On December 19, 2012, we consummated the transactions contemplated by a Stock Purchase Agreement with Vital Signs, Inc., an affiliate of GE Healthcare (“Vital Signs”), as seller, and purchased all of the issued and outstanding shares of Thomas Medical Products, Inc. (“Thomas Medical”), a Pennsylvania corporation. The primary assets of Thomas Medical are the various patents, trademarks, and business related to introducers, hemostatic valves, and sheaths. Using the splittable hemostatic introducer sheath as an entry product, we intend to develop a portfolio of premium accessories for electrophysiology physicians. We accounted for this acquisition as a business combination. We made an initial payment of \$167.0 million to Vital Signs in December 2012. We also accrued an additional \$445,000 at December 31, 2012, related to a final payment made to Vital Signs in February 2013 for net working capital received in excess of the target net working capital specified. The results of operations related to this acquisition have been included in our cardiovascular segment since the acquisition date. Our consolidated financial statements for the year ended December 31, 2012 include approximately \$1.9 million and \$51,000 of net sales and income before tax, respectively, related to the Thomas Medical acquisition. The total purchase price was allocated as follows (in thousands):

Assets Acquired	
Trade receivables	\$ 6,507
Inventories	5,459
Prepaid expenses	340
Property and equipment	2,685
Intangibles	
Developed technology	43,000
Non-compete agreements	500
Customer lists	5,000
Trademarks	1,400
Goodwill	102,407
Total assets acquired	<u>167,298</u>
Liabilities Assumed	
Trade payables	588
Accrued expenses	1,094
Total liabilities assumed	<u>1,682</u>
Net assets acquired, net of cash acquired of \$1,829	<u>\$ 165,616</u>

During the year ended December 31, 2013, the goodwill related to the Thomas Medical acquisition was increased by approximately \$381,000 due to an adjustment related to inventories.

The gross amount of trade receivables we acquired in the Thomas Medical transaction was approximately \$6.5 million, of which \$34,000 was expected to be uncollectible. With respect to the Thomas Medical assets, we are amortizing developed technology over eight years, customer lists on an accelerated basis over 12 years, and non-compete agreements over three years. While U.S. trademarks can be renewed indefinitely, we currently estimate that

we will generate cash flow from the acquired trademarks for a period of 15 years from the acquisition date. The total weighted-average amortization period for these acquired intangible assets is 8.55 years.

In connection with our Thomas Medical acquisition, we paid approximately \$3.7 million in long-term debt issuance costs to Wells Fargo Bank related to our Credit Agreement (see Note 7). These costs consist primarily of loan origination fees that we are amortizing over five years, which is the contract term of our Credit Agreement. We also incurred approximately \$2.7 million of acquisition-related costs during the year ended December 31, 2012, which are included in selling, general and administrative expense in the accompanying consolidated statements of operations.

On November 19, 2012, we entered into an Asset Purchase Agreement with Janin Group, Inc. (dba MediGroup) ("MediGroup"), an Illinois corporation, to purchase substantially all of the assets of MediGroup. The primary assets of MediGroup are the patented Flex-Neck® Peritoneal Dialysis Catheters and Y-TEC™ Peritoneal Dialysis Implantation Kits. We accounted for this acquisition as a business combination. We made an initial payment of approximately \$4.0 million in November 2012. In addition, we are obligated to make contingent payments of up to \$150,000 per year during 2013, 2014 and 2015. Furthermore, we are obligated to make contingent purchase price payments of \$150,000 per year in 2016 through 2022 if net sales of Medigroup products increase at least 8% in each subsequent year. If net sales of MediGroup products have not increased by the percentage set forth in any year, our obligation to make these contingent payments shall cease. The acquisition-date fair value of the contingent consideration liability of approximately \$403,000 was included as part of the purchase consideration. Acquisition-related costs during the year ended December 31, 2012, which are included in selling, general, and administrative expense in the accompanying consolidated statements of income, were not material. The results of operations related to this acquisition have been included in our cardiovascular segment since the acquisition date. During the year ended December 31, 2012, our net sales of MediGroup products were approximately \$169,000. It is not practical to separately report the earnings related to the MediGroup acquisition, as we cannot split out sales costs related to MediGroup products, principally because our sales representatives are selling multiple products (including MediGroup products) in the cardiovascular business segment. The total purchase price, which includes the contingent consideration liability described above, was allocated as follows (in thousands):

Assets Acquired	
Inventories	\$ 263
Property and equipment	79
Intangibles	
Developed technology	2,000
Non-compete agreements	210
Customer lists	110
Trademarks	80
Goodwill	<u>1,697</u>
Total assets acquired	<u><u>\$ 4,439</u></u>

With respect to the MediGroup assets, we are amortizing developed technology over eight years, customer lists on an accelerated basis over eight years, and non-compete agreements over seven years. While U.S. trademarks can be renewed indefinitely, we currently estimate that we will generate cash flow from the acquired trademarks for a period of 15 years from the acquisition date. The total weighted-average amortization period for these acquired intangible assets is 8.15 years.

On August 27, 2012, we entered into a license agreement with a medical device company for the use of certain patents. We paid \$750,000 for the use of the license. The purchase price was allocated to a license agreement for \$750,000, which we are amortizing over three years.

On August 21, 2012, we entered into a distribution and patent sublicense agreement with Catheter Connections, Inc. ("CathConn"), a Utah corporation, for the exclusive rights to sell certain disinfecting cap

technologies. We paid CathConn \$250,000 in August 2012 for the exclusive rights to distribute CathConn's MaleCap Solo technology in the field of interventional radiology and interventional cardiology. We can elect to pay an additional \$250,000 for each of the exclusive rights to other aspects of CathConn's DualCap disinfecting cap technology. The purchase price was allocated to a distribution agreement for \$250,000, which we intend to amortize over 10 years.

On August 7, 2012, we purchased 422,594 special membership units, which represents an ownership interest of approximately 11.9%, of Blockade Medical LLC ("Blockade"), a Delaware limited liability company, for an aggregate price of approximately \$1.0 million, which is accounted for at cost. Blockade develops, markets and sells catheter-based therapeutic devices.

On January 31, 2012, we consummated the transactions contemplated by an Asset Purchase Agreement with Ostial Solutions, LLC ("Ostial"), a Michigan limited liability company, to purchase substantially all of the assets of Ostial. The primary asset of Ostial is the patented Ostial PRO Stent Positioning System, which is designed to facilitate precise stent implantation in coronary and renal aorto-ostial lesions. We accounted for this acquisition as a business combination. We made an initial payment of \$10.0 million to Ostial in January 2012 and an additional payment of \$6.5 million to Ostial in August 2012. In addition, we are obligated to make contingent purchase price payments of up to \$13.5 million based on a percentage of future sales of products utilizing the Ostial PRO Stent Positioning System. The acquisition-date fair value of this contingent consideration liability of \$4.3 million was included as part of the purchase consideration and was determined using a discounted cash flow model based upon the expected timing and amount of these future contingent payments. Acquisition-related costs during the year ended December 31, 2012, which are included in selling, general, and administrative expense in the accompanying consolidated statements of income, were not material. The results of operations related to this acquisition have been included in our cardiovascular segment since the acquisition date. During the year ended December 31, 2012, our net sales of products utilizing the Ostial PRO Stent Positioning System were approximately \$457,000. It is not practical to separately report the earnings related to the Ostial acquisition, as we cannot split out sales costs related to Ostial products, principally because our sales representatives are selling multiple products (including Ostial products) in the cardiovascular business segment. The total purchase price, which includes the contingent consideration liability described above, was allocated as follows (in thousands):

Assets Acquired Intangibles	
Developed technology	\$ 10,500
Customer lists	600
Trademark	110
Non-compete agreements	10
Goodwill	<u>9,580</u>
Total assets acquired	<u><u>\$ 20,800</u></u>

With respect to the Ostial assets, we intend to amortize developed technology over 15 years, customer lists on an accelerated basis over eight years, and non-compete agreements over five years. While U.S. trademarks can be renewed indefinitely, we currently estimate that we will generate cash flow from the acquired trademarks for a period of 15 years from the acquisition date. The total weighted-average amortization period for these acquired intangible assets is 14.6 years.

The following table summarizes our unaudited consolidated results of operations for the years ended December 31, 2013 and 2012, as well as unaudited pro forma consolidated results of operations as though the Thomas Medical, MediGroup, and Ostial acquisitions had occurred on January 1, 2011 and the Datascope acquisition had occurred on January 1, 2012 (in thousands, except per common share amounts):

	2013		2012	
	As Reported	Pro Forma	As Reported	Pro Forma
Net sales	\$ 449,049	\$ 454,333	\$ 394,288	\$ 438,981
Net income	16,570	17,112	19,710	25,075
Earnings per common share:				
Basic	\$ 0.39	\$ 0.40	\$ 0.47	\$ 0.59
Diluted	\$ 0.39	\$ 0.40	\$ 0.46	\$ 0.59

The unaudited pro forma information set forth above is for informational purposes only and includes adjustments related to the step-up of acquired inventories, amortization expense related to acquired intangible assets, and interest expense on long-term debt. The pro forma information should not be considered indicative of actual results that would have been achieved if the Thomas Medical, MediGroup, and Ostial acquisitions had occurred on January 1, 2011 and the Datascope acquisition had occurred on January 1, 2012, or results that may be obtained in any future period. The pro forma consolidated results of operations do not include the Radial Assist acquisition, as we do not deem the pro forma effect of the transaction to be material.

On January 5, 2012, we entered into a Marketing and Distribution Agreement with Scion Cardio-Vascular, Inc. (“Scion”), a Florida corporation, wherein we purchased the exclusive, worldwide right to distribute the Clo-Sur^{PLUS} P.A.D.TM for \$2.5 million. We made an initial payment of \$1.5 million to Scion in January 2012. We made an additional payment of \$1.0 million in May 2012 upon reaching a milestone set forth in the purchase agreement. The purchase price was allocated to a distribution agreement for \$2.5 million, which we are amortizing over 12 years. As a result of entering into this agreement, we terminated several exclusive Scion sales distributor agreements where we had previously established direct sales relationships. In connection with the termination of these agreements, we agreed to purchase customer lists from the terminated distributors. The total purchase price of the customer lists was approximately \$95,000 and was allocated to other intangible assets as of December 31, 2012. We are amortizing the customer lists on an accelerated basis over five years.

During the year ended December 31, 2012, we purchased several patents for the development of future products. A total charge of approximately \$2.5 million related to these asset acquisitions has been recorded to acquired in-process research and development in the accompanying consolidated statements of income for the year ended December 31, 2012, as both technological feasibility of the underlying research and development projects had not yet been reached and such technology had no future alternative use as of the respective date of each asset acquisition.

The goodwill arising from the acquisitions discussed above consists largely of the synergies and economies of scale we hope to achieve from combining the acquired assets and operations with our historical operations (see Note 4). The goodwill recognized from these acquisitions is expected to be deductible for income tax purposes.

3. INVENTORIES

Inventories at December 31, 2014 and 2013, consisted of the following (in thousands):

	2014	2013
Finished goods	\$ 50,000	\$ 43,364
Work-in-process	7,680	6,222
Raw materials	34,093	32,792
Total	\$ 91,773	\$ 82,378

4. GOODWILL AND INTANGIBLE ASSETS

The changes in the carrying amount of goodwill for the years ended December 31, 2014 and 2013, are as follows (in thousands):

	<u>2014</u>	<u>2013</u>
Goodwill balance at January 1	\$ 184,505	\$ 175,108
Effect of foreign exchange	(41)	—
Adjustment related to previous acquisitions	—	381
Additions as the result of acquisitions	—	9,016
Goodwill balance at December 31	<u>\$ 184,464</u>	<u>\$ 184,505</u>

As of December 31, 2014, we had recorded \$8.3 million of accumulated goodwill impairment charges. All of the goodwill balance as of December 31, 2014 and 2013 related to our cardiovascular segment.

Other intangible assets at December 31, 2014 and 2013, consisted of the following (in thousands):

	<u>2014</u>		
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>
Patents	\$ 10,199	\$ (2,196)	\$ 8,003
Distribution agreements	5,376	(2,285)	3,091
License agreements	8,995	(1,823)	7,172
Trademarks	7,298	(2,079)	5,219
Covenants not to compete	1,029	(636)	393
Customer lists	20,452	(13,194)	7,258
Royalty agreements	267	(267)	—
Total	<u>\$ 53,616</u>	<u>\$ (22,480)</u>	<u>\$ 31,136</u>

	<u>2013</u>		
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>
Patents	\$ 9,302	\$ (2,374)	\$ 6,928
Distribution agreements	5,176	(1,780)	3,396
License agreements	3,783	(1,249)	2,534
Trademarks	7,622	(1,844)	5,778
Covenants not to compete	1,029	(399)	630
Customer lists	20,626	(10,957)	9,669
Royalty agreements	267	(267)	—
Total	<u>\$ 47,805</u>	<u>\$ (18,870)</u>	<u>\$ 28,935</u>

Aggregate amortization expense for the years ended December 31, 2014, 2013 and 2012 was approximately \$14.9 million, \$14.2 million and \$7.5 million, respectively.

We evaluate long-lived assets, including amortizing intangible assets, for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. We perform the impairment analysis at the asset group for which the lowest level of identifiable cash flows are largely independent of the cash flows of other assets and liabilities. We compared the carrying value of the amortizing intangible assets acquired in

our January 2012 acquisition of Ostial to the undiscounted cash flows expected to result from the asset group and determined that the carrying amount was not recoverable. We then determined the fair value of the amortizing assets related to the Ostial acquisition based on estimated future cash flows discounted back to their present value using a discount rate that reflects the risk profiles of the underlying activities. Some of the factors that influenced our estimated cash flows were slower than anticipated sales growth in the products acquired from our Ostial acquisition and uncertainty about future sales growth. The excess of the carrying value compared to the fair value was recognized as an intangible asset impairment charge. During the third quarter of 2014 and 2013, we recorded impairment charges for Ostial of approximately \$1.1 million and \$8.1 million, respectively, which were offset by approximately \$874,000 and \$3.8 million, respectively, of fair value reductions to the related contingent consideration liability.

Estimated amortization expense for the developed technology and other intangible assets for the next five years consists of the following as of December 31, 2014 (in thousands):

Year Ending December 31	
2015	\$ 14,525
2016	14,381
2017	13,911
2018	13,197
2019	12,916

5. INCOME TAXES

For the years ended December 31, 2014, 2013 and 2012, income before income taxes is broken out between U.S. and foreign-sourced operations and consisted of the following (in thousands):

	2014	2013	2012
Domestic	\$ 16,961	\$ 5,435	\$ 15,958
Foreign	14,611	14,404	11,660
Total	\$ 31,572	\$ 19,839	\$ 27,618

The components of the provision for income taxes for the years ended December 31, 2014, 2013 and 2012, consisted of the following (in thousands):

	2014	2013	2012
Current expense (benefit):			
Federal	\$ 1,316	\$ (747)	\$ 5,350
State	768	333	1,014
Foreign	2,644	2,324	995
Total current expense	4,728	1,910	7,359
Deferred expense (benefit):			
Federal	4,078	1,089	871
State	(119)	278	(343)
Foreign	(89)	(8)	21
Total deferred expense	3,870	1,359	549
Total income tax expense	\$ 8,598	\$ 3,269	\$ 7,908

The difference between the income tax expense reported and amounts computed by applying the statutory federal rate of 35.0% to pretax income for the years ended December 31, 2014, 2013 and 2012, consisted of the following (in thousands):

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Computed federal income tax expense at statutory rate of 35%	\$ 11,050	\$ 6,943	\$ 9,667
State income taxes	438	397	436
Tax credits	(888)	(1,385)	(779)
Production activity deduction	—	—	(388)
Foreign tax rate differential	(1,958)	(2,374)	(1,419)
Uncertain tax positions	(76)	(520)	(42)
Deferred compensation insurance assets	(81)	(358)	(155)
Other — including the effect of graduated rates	113	566	588
	<u> </u>	<u> </u>	<u> </u>
Total income tax expense	<u>\$ 8,598</u>	<u>\$ 3,269</u>	<u>\$ 7,908</u>

Deferred income tax assets and liabilities at December 31, 2014 and 2013, consisted of the following temporary differences and carry-forward items (in thousands):

	<u>2014</u>	<u>2013</u>
Deferred income tax assets:		
Allowance for uncollectible accounts receivable	\$ 366	\$ 342
Accrued compensation expense	5,492	5,001
Inventory differences	2,401	2,317
Net operating loss carryforwards	13,542	18,060
Deferred revenue	87	280
Stock-based compensation expense	2,479	2,704
Uncertain tax positions	284	559
Federal research and development credit carryforward	1,413	569
Foreign Tax Credits	1,374	—
Other	4,173	3,197
Total deferred income tax assets	<u>31,611</u>	<u>33,029</u>
Deferred income tax liabilities:		
Prepaid expenses	(708)	(751)
Property and equipment	(23,298)	(21,893)
Intangible assets	(4,853)	(3,837)
Other	(1,150)	(1,295)
Total deferred income tax liabilities	<u>(30,009)</u>	<u>(27,776)</u>
Valuation allowance	<u>(1,603)</u>	<u>(1,363)</u>
Net deferred income tax assets (liabilities)	<u>\$ (1)</u>	<u>\$ 3,890</u>
Reported as:		
Deferred income tax assets – Current	\$ 6,375	\$ 5,638
Deferred income tax assets - Long-term	9	800
Deferred income tax liabilities – Current	—	—
Deferred income tax liabilities - Long-term	<u>(6,385)</u>	<u>(2,548)</u>
Net deferred income tax assets (liabilities)	<u>\$ (1)</u>	<u>\$ 3,890</u>

The long-term deferred income tax balances are not netted as they represent deferred amounts applicable to different taxing jurisdictions. Deferred income tax balances reflect the temporary differences between the carrying amounts of assets and liabilities and their tax bases and are stated at enacted tax rates expected to be in effect when taxes are actually paid or recovered. The valuation allowance is primarily related to state credit carryforwards and capital losses for which we believe it is more likely than not that the deferred tax assets will not be realized. The valuation allowance increased by approximately \$240,000, \$138,000, and \$864,000 during the years ended December 31, 2014, 2013 and 2012, respectively.

We have not provided U.S. deferred income taxes or foreign withholding taxes on the undistributed earnings of certain foreign subsidiaries that are intended to be reinvested indefinitely in operations outside the United States. It is not practical to estimate the amount of additional taxes that might be payable on such undistributed earnings.

As of December 31, 2014 and 2013, we had U.S. federal net operating loss carryforwards of approximately \$38.7 million and \$52.2 million, respectively. These net operating loss carryforwards, which expire at various dates through 2030, are subject to an annual limitation under Internal Revenue Code Section 382. We anticipate that we will utilize the net operating loss carryforwards over the next 12 years. We utilized a total of approximately \$13.5 million and \$3.8 million in U.S. federal net operating loss carryforwards during the year ended December 31, 2014 and 2013, respectively.

As of December 31, 2014 and 2013, we had non-U.S. net operating loss carryforwards of approximately \$53,000 and \$125,000, respectively, which have no expiration date. Non-U.S. net operating loss carryforwards utilized during 2014 and 2013 were not material.

We are subject to income taxes in the United States and numerous foreign jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes and recording the related assets and liabilities. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. In our opinion, we have made adequate provisions for income taxes for all years subject to audit. We are no longer subject to U.S. federal, state, and local income tax examinations by tax authorities for years before 2011. In foreign jurisdictions, we are no longer subject to income tax examinations for years before 2008.

Although we believe our estimates are reasonable, the final outcomes of these matters may be different from those which we have reflected in our historical income tax provisions and accruals. Such differences could have a material effect on our income tax provision and operating results in the period in which we make such determination.

The total liability for unrecognized tax benefits at December 31, 2014, including interest and penalties, was approximately \$1.9 million, of which approximately \$1.6 million would favorably impact our effective tax rate if recognized. Approximately \$563,000 of the total liability at December 31, 2014 was presented as a reduction to non-current deferred income tax assets on our consolidated balance sheet as of that date. The total liability for unrecognized tax benefits at December 31, 2013, including interest and penalties, was approximately \$2.3 million, of which approximately \$1.7 million would favorably impact our effective tax rate if recognized. Approximately \$236,000 of the total liability at December 31, 2013 was presented as a reduction to non-current deferred income tax assets on our consolidated balance sheet as of that date. As of December 31, 2014 and 2013, we had accrued approximately \$181,000 and \$139,000 respectively, in total interest and penalties related to unrecognized tax benefits. We account for interest and penalties for unrecognized tax benefits as part of our income tax provision. During the year ended December 31, 2014, we added interest and penalties of approximately \$42,000 to our liability for unrecognized tax benefits. During the years ended December 31, 2013 and 2012, we removed interest and penalties of approximately \$22,000, and \$215,000, respectively, from our liability for unrecognized tax benefits. The decrease in interest and penalties during 2012 was primarily related to an interest payment to the IRS in order to settle a withholding tax issue related to our acquisition of BioSphere. We anticipate the total liability for unrecognized tax benefits may be reduced, net of potential increases and decreases due to the expiration of statutes of limitation, by a range of approximately \$400,000 to \$800,000 within the next 12 months.

A reconciliation of the beginning and ending amount of liabilities associated with uncertain tax benefits for the years ended December 31, 2014, 2013 and 2012, consisted of the following (in thousands):

Tabular Roll-forward	2014	2013	2012
Unrecognized tax benefits, opening balance	\$ 2,129	\$ 2,776	\$ 3,113
Gross increases in tax positions taken in a prior year	142	107	83
Gross increases in tax positions taken in the current year	309	236	260
Lapse of applicable statute of limitations	(844)	(990)	(680)
Unrecognized tax benefits, ending balance	\$ 1,736	\$ 2,129	\$ 2,776

The tabular roll-forward ending balance does not include interest and penalties related to unrecognized tax benefits.

6. ACCRUED EXPENSES

Accrued expenses at December 31, 2014 and 2013, consisted of the following (in thousands):

	2014	2013
Payroll taxes	\$ 1,931	\$ 1,816
Payroll	4,086	3,474
Bonuses	7,301	5,273
Commissions	980	984
Vacation	6,753	6,280
Royalties	1,497	1,221
Value-added tax	1,555	1,469
Other accrued expenses	9,723	7,185
Total	\$ 33,826	\$ 27,702

7. REVOLVING CREDIT FACILITY AND LONG-TERM DEBT

We entered into an Amended and Restated Credit Agreement, dated December 19, 2012, with the lenders who are or may become party thereto (collectively, the "Lenders") and Wells Fargo Bank, National Association ("Wells Fargo"), as administrative agent for the Lenders, which was amended on October 4, 2013 by a First Amendment to the Amended and Restated Credit Agreement by and among Merit, certain subsidiaries of Merit, the Lenders and Wells Fargo as administrative agent for the Lenders (as amended, the "Credit Agreement"). Pursuant to the terms of the Credit Agreement, the Lenders have agreed to make revolving credit loans up to an aggregate amount of \$215 million. The Lenders also made a term loan in the amount of \$100 million, repayable in quarterly installments in the amounts provided in the Credit Agreement until the maturity date of December 19, 2017, at which time the term and revolving credit loans, together with accrued interest thereon, will be due and payable. In addition, certain mandatory prepayments are required to be made upon the occurrence of certain events described in the Credit Agreement. Wells Fargo has agreed, upon satisfaction of certain conditions, to make swingline loans from time to time through the maturity date in amounts equal to the difference between the amounts actually loaned by the Lenders and the aggregate revolving credit commitment. The Credit Agreement is collateralized by substantially all of our assets. At any time prior to the maturity date, we may repay any amounts owing under all revolving credit loans, term loans, and all swingline loans in whole or in part, subject to certain minimum thresholds, without premium or penalty, other than breakage costs.

The term loan and any revolving credit loans made under the Credit Agreement bear interest, at our election, at either (i) the base rate (described below) plus 0.25% (subject to adjustment if the Consolidated Total Leverage Ratio, as defined in the Credit Agreement, is at or greater than 2.25 to 1), (ii) the London Inter-Bank

Offered Rate (“LIBOR”) Market Index Rate (as defined in the Credit Agreement) plus 1.25% (subject to adjustment if the Consolidated Total Leverage Ratio, as defined in the Credit Agreement, is at or greater than 2.25 to 1), or (iii) the LIBOR Rate (as defined in the Credit Agreement) plus 1.25% (subject to adjustment if the Consolidated Total Leverage Ratio, as defined in the Credit Agreement, is at or greater than 2.25 to 1). Initially, the term loan and revolving credit loans under the Credit Agreement bear interest, at our election, at either (x) the base rate plus 1.00%, (y) the LIBOR Market Index Rate, plus 2.00%, or (z) the LIBOR Rate plus 2.00%. Swingline loans bear interest at the LIBOR Market Index Rate plus 1.25% (subject to adjustment if the Consolidated Total Leverage Ratio, as defined in the Credit Agreement, is at or greater than 2.25 to 1). Initially, swingline loans bear interest at the LIBOR Market Index Rate plus 2.00%. Interest on each loan featuring the base rate or the LIBOR Market Index Rate is due and payable on the last business day of each calendar month; interest on each loan featuring the LIBOR Rate is due and payable on the last day of each interest period selected by us when selecting the LIBOR Rate as the benchmark for interest calculation. For purposes of the Credit Agreement, the base rate means the highest of (i) the prime rate (as announced by Wells Fargo), (ii) the federal funds rate plus 0.50%, and (iii) LIBOR for an interest period of one month plus 1.00%. Our obligations under the Credit Agreement and all loans made thereunder are fully secured by a security interest in our assets pursuant to a separate collateral agreement entered into in conjunction with the Credit Agreement.

The Credit Agreement contains customary covenants, representations and warranties and other terms customary for revolving credit loans of this nature. In this regard, the Credit Agreement requires us to not, among other things, (a) permit the Consolidated Total Leverage Ratio (as defined in the Credit Agreement) to be greater than 4.75 to 1 through the end of 2013, no more than 4.00 to 1 as of the fiscal quarter ending March 31, 2014, no more than 3.75 to 1 as of the fiscal quarter ending June 30, 2014, no more than 3.50 to 1 as of the fiscal quarter ending September 30, 2014, no more than 3.25 to 1 as of the fiscal quarter ending December 31, 2014, no more than 3.00 to 1 as of any fiscal quarter ending during 2015, no more than 2.75 to 1 as of any fiscal quarter ending during 2016, and no more than 2.50 to 1 as of any fiscal quarter ending thereafter; (b) for any period of four consecutive fiscal quarters, permit the ratio of Consolidated EBITDA (as defined in the Credit Agreement and subject to certain adjustments) to Consolidated Fixed Charges (as defined in the Credit Agreement) to be less than 1.75 to 1; (c) subject to certain adjustments, permit Consolidated Net Income (as defined in the Credit Agreement) for certain periods to be less than \$0; or (d) subject to certain conditions and adjustments, permit the aggregate amount of all Facility Capital Expenditures (as defined in the Credit Agreement) in any fiscal year beginning in 2013 to exceed \$30 million. Additionally, the Credit Agreement contains various negative covenants with which we must comply, including, but not limited to, limitations respecting: the incurrence of indebtedness, the creation of liens or pledges on our assets, mergers or similar combinations or liquidations, asset dispositions, the repurchase or redemption of equity interests or debt, the issuance of equity, the payment of dividends and certain distributions, the entry into related party transactions and other provisions customary in similar types of agreements. As of December 31, 2014, we were in compliance with all covenants set forth in the Credit Agreement.

We had originally entered into an unsecured credit agreement, dated September 30, 2010, with certain lenders who were or became party thereto and Wells Fargo, as administrative agent for the lenders. Pursuant to the terms of that credit agreement, the lenders agreed to make revolving credit loans up to an aggregate amount of \$175 million. Wells Fargo also agreed to make swingline loans from time to time through the maturity date of September 10, 2015 in amounts equal to the difference between the amount actually loaned by the lenders and the aggregate credit agreement. The unsecured credit agreement was amended and restated as of December 19, 2012, as the Credit Agreement.

In summary, principal balances under our long-term debt as of December 31, 2014 and 2013, consisted of the following (in thousands):

	2014	2013
Term loan	\$ 82,500	\$ 92,500
Revolving credit loans	141,990	156,354
Total long-term debt	224,490	248,854
Less current portion	10,000	10,000
Long-term portion	<u>\$ 214,490</u>	<u>\$ 238,854</u>

Future minimum principal payments on our long-term debt as of December 31, 2014, are as follows (in thousands):

Year Ending December 31	Future Minimum Principal Payments
2015	\$ 10,000
2016	10,000
2017	204,490
Total future minimum principal payments	\$ 224,490

As of December 31, 2014, we had outstanding borrowings of approximately \$224.5 million under the Credit Agreement, with available borrowings of approximately \$27.5 million, based on the leverage ratio in the terms of the Credit Agreement. Our interest rate as of December 31, 2014 was a fixed rate of 2.98% on \$140.0 million as a result of an interest rate swap (see Note 8), a variable floating rate of 2.17% on \$84.3 million and a variable floating rate of 2.26% on approximately \$0.2 million. Our interest rate as of December 31, 2013 was a fixed rate of 4.23% on \$145.0 million as a result of an interest rate swap, variable floating rate of 3.42% on \$101.5 million and a variable floating rate of 3.50% on approximately \$2.4 million.

8. DERIVATIVES

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

We formally document, designate and assess the effectiveness of transactions that receive hedge accounting initially and on an ongoing basis. Changes in the fair value of derivatives that qualify for hedge accounting treatment are recorded, net of applicable taxes, in accumulated other comprehensive income (loss), a component of stockholders' equity in the accompanying consolidated balance sheets. For the ineffective portions of qualifying hedges, the change in fair value is recorded through earnings in the period of change. Changes in the fair value of derivatives not designated as cash flow hedges are recorded in earnings throughout the term of the derivative instrument.

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

On December 19, 2012, we entered into a pay-fixed, receive-variable interest rate swap having an initial notional amount of \$150 million with Wells Fargo to fix the one-month LIBOR rate at 0.98%. The variable portion of the interest rate swap is tied to the one-month LIBOR rate (the benchmark interest rate). The interest rates under both the interest rate swap and the underlying debt reset, the swap is settled with the counterparty, and interest is paid, on a monthly basis. The notional amount of the interest rate swap is reduced quarterly by 50% of the minimum principal payment due under the terms of the Credit Agreement. The interest rate swap is scheduled to expire on December 19, 2017.

At December 31, 2014 and 2013, our interest rate swap qualified as a cash flow hedge. The fair value of our interest rate swap at December 31, 2014 was an asset of approximately \$573,000, which was offset by approximately \$223,000 in deferred taxes. The fair value of our interest rate swap at December 31, 2013 was an asset of approximately \$1.2 million, which was offset by approximately \$468,000 in deferred taxes.

During the years ended December 31, 2014, 2013 and 2012, the amount reclassified from accumulated other comprehensive income to earnings due to hedge effectiveness were included in interest expense in the accompanying consolidated statements of income and were not material.

Foreign Currency Forward Contracts. On November 28, 2014, we forecasted a net exposure for December 31, 2014 (representing the difference between Euro and GBP-denominated receivables and Euro-denominated payables) of approximately 899,000 Euros and 572,000 GBPs. In order to partially offset such risks at November 28, 2014, we entered into a 30-day forward contract for the Euro and GBP with a notional amount of approximately 899,000 Euros and notional amount of 572,000 GBPs. On November 29, 2013, we forecasted a net exposure for December 31, 2013 (representing the difference between Euro and GBP-denominated receivables and Euro-denominated payables) of approximately 494,000 Euros and 847,000 GBPs. In order to partially offset such risks at November 29, 2013, we entered into a 30-day forward contract for the Euro and GBP with a notional amount of approximately 494,000 Euros and notional amount of 847,000 GBPs. We enter into similar transactions at various times during the year to partially offset exchange rate risks we bear throughout the year. These contracts are marked to market at each month-end. During the years ended December 31, 2014, 2013 and 2012, we recorded a net gain (loss) on all foreign currency transactions of approximately \$36,000, \$(202,000) and \$(11,000), respectively, which is included in other income in the accompanying consolidated statements of income. The fair value of our open positions at December 31, 2014 and 2013 was not material.

9. COMMITMENTS AND CONTINGENCIES

We are obligated under non-terminable operating leases for manufacturing facilities, finished good distribution, office space and equipment. Total rental expense on these operating leases and on our manufacturing and office building for the years ended December 31, 2014, 2013 and 2012, approximated \$8.1 million, \$5.5 million and \$4.8 million, respectively.

The future minimum lease payments for operating leases as of December 31, 2014, consisted of the following (in thousands):

Year Ending December 31	Operating Leases
2015	\$ 8,870
2016	8,465
2017	7,438
2018	7,030
2019	7,038
Thereafter	42,626
Total minimum lease payments	\$ 81,467

Sale-Leaseback. During the year ended December 31, 2014, we entered into sale and leaseback transactions to finance certain production equipment for \$5.5 million. The lease agreements from the sale and leaseback transactions are accounted for as operating leases. Under the terms of the lease agreement, we will continue to operate and maintain the equipment. The lease term is seven years. During the fourth quarter of 2013, we entered into a sale and leaseback transaction with a third-party lessor for the sale and leaseback of our Pearland, Texas facility for \$24.0 million. The lease agreement from this sale and leaseback transaction is accounted for as an operating lease. Under the terms of the lease agreement, we will continue to operate and maintain the building. The lease term is 19.8 years. Payments under the lease agreement are fixed. The lease agreement contains standard termination events, including termination upon a breach of our obligation to make rental payments and upon any other material breach of obligations under the lease, and standard maintenance and return condition provisions.

Irish Government Development Agency Grants. As of December 31, 2014, we had entered into several grant agreements with the Irish Government Development Agency. We have recorded the grants related to research and development projects and costs of hiring and training employees as a reduction of operating expenses for the years ended December 31, 2014, 2013 and 2012 in the amounts of approximately \$0, \$1.2 million and \$424,000,

respectively. Grants related to the acquisition of property and equipment purchased in Ireland are amortized as a reduction to depreciation expense over lives corresponding to the depreciable lives of such property and equipment. The balance of deferred credits related to such grants as of December 31, 2014 and 2013, was approximately \$2.9 million and \$3.1 million, respectively. During the years ended December 31, 2014, 2013 and 2012, approximately \$175,000, \$139,000 and \$174,000, respectively, of the deferred credit was amortized as a reduction of operating expenses.

We have committed to repay the Irish government for grants received if we cease production in Ireland prior to the expiration of the grant liability period. The grant liability period is usually between five and eight years from the last claim made on a grant. As of December 31, 2014, the total amount of grants that could be subject to refund was approximately \$4.4 million, and the remaining grant liability period was four years. Our management does not currently believe we will have to repay any of these grant monies, as we have no current intention of ceasing operations in Ireland.

Litigation. In the ordinary course of business, we are involved in various claims and litigation matters. These claims and litigation matters may include actions involving product liability, intellectual property, contractual, and employment matters. We do not believe that any such actions are likely to be, individually or in the aggregate, material to our business, financial condition, results of operations or liquidity. However, in the event of unexpected further developments, it is possible that the ultimate resolution of these matters, or other similar matters, if unfavorable, may be materially adverse to our business, financial condition, results of operations or liquidity. Legal costs for these matters such as outside counsel fees and expenses are charged to expense in the period incurred.

10. EARNINGS PER COMMON SHARE (EPS)

The computation of weighted average shares outstanding and the basic and diluted earnings per common share for the following periods consisted of the following (in thousands, except per share amounts):

	<u>Net Income</u>	<u>Shares</u>	<u>Per Share Amount</u>
Year ended December 31, 2014:			
Basic EPS	\$ 22,974	43,143	\$ 0.53
Effect of dilutive stock options and warrants		<u>266</u>	
Diluted EPS	<u>\$ 22,974</u>	<u>43,409</u>	<u>\$ 0.53</u>
Year ended December 31, 2013:			
Basic EPS	\$ 16,570	42,607	\$ 0.39
Effect of dilutive stock options and warrants		<u>277</u>	
Diluted EPS	<u>\$ 16,570</u>	<u>42,884</u>	<u>\$ 0.39</u>
Year ended December 31, 2012:			
Basic EPS	\$ 19,710	42,176	\$ 0.47
Effect of dilutive stock options and warrants		<u>434</u>	
Diluted EPS	<u>\$ 19,710</u>	<u>42,610</u>	<u>\$ 0.46</u>

For the years ended December 31, 2014, 2013 and 2012, approximately 1,292,000, 1,823,000 and 1,588,000, respectively, of stock options were not included in the computation of diluted earnings per share because their effect would have been anti-dilutive.

11. EMPLOYEE STOCK PURCHASE PLAN STOCK OPTIONS AND WARRANTS.

Our stock-based compensation primarily consists of the following plans:

2006 Long-Term Incentive Plan. In May 2006, our Board of Directors adopted and our shareholders approved, the Merit Medical Systems, Inc. 2006 Long-Term Incentive Plan (the “2006 Incentive Plan”). The 2006 Incentive Plan provides for the granting of stock options, stock appreciation rights, restricted stock, stock units (including restricted stock units) and performance awards. Options may be granted to directors, officers, outside consultants and key employees and may be granted upon such terms and such conditions as the Compensation Committee of our Board of Directors determines. Options will typically vest on an annual basis over a three to five year life (or one year if performance based) with contractual lives of seven to ten years. As of December 31, 2014, a total of approximately 447,000 shares remained available to be issued under the 2006 Incentive Plan.

Employee Stock Purchase Plan. We have a qualified and a non-qualified Employee Stock Purchase Plan (“ESPP”), which has an expiration date of June 30, 2016. As of December 31, 2014, the total number of shares of Common Stock that remained available to be issued under our qualified plan was approximately 205,000 shares and 51,000 shares for our non-qualified plan. ESPP participants purchase shares on a quarterly basis at a price equal to 95% of the market price of the Common Stock at the end of the applicable offering period.

Stock-Based Compensation Expense. The stock-based compensation expense before income tax expense for the years ended December 31, 2014, 2013 and 2012, consisted of the following (in thousands):

	2014	2013	2012
Cost of goods sold	\$ 198	\$ 145	\$ 245
Research and development	69	87	119
Selling, general, and administrative	1,193	1,235	1,553
Stock-based compensation expense before taxes	<u>\$ 1,460</u>	<u>\$ 1,467</u>	<u>\$ 1,917</u>

We recognize stock-based compensation expense (net of a forfeiture rate) for those awards which are expected to vest on a straight-line basis over the requisite service period. We estimate the forfeiture rate based on our historical experience and expectations about future forfeitures. As of December 31, 2014, the total remaining unrecognized compensation cost related to non-vested stock options, net of expected forfeitures, was approximately \$4.9 million and is expected to be recognized over a weighted average period of 3.6 years.

In applying the Black-Scholes methodology to the option grants, the fair value of our stock-based awards granted were estimated using the following assumptions for the periods indicated below:

	2014	2013	2012
Risk-free interest rate	1.53% - 1.97%	0.65% - 1.16%	0.54% - 0.95%
Expected option life	5.0 - 5.5 years	4.2 - 6.0 years	4.2 - 6.0 years
Expected dividend yield	—%	—%	—%
Expected price volatility	34.52% - 36.90%	34.08% - 41.67%	42.01% - 44.56%

The average risk-free interest rate is determined using the U.S. Treasury rate in effect as of the date of grant, based on the expected term of the stock option. We determine the expected term of the stock options using the historical exercise behavior of employees. The expected price volatility was determined using a weighted average of daily historical volatility of our stock price over the corresponding expected option life and implied volatility based on recent trends of the daily historical volatility. For options with a vesting period, compensation expense is recognized on a straight-line basis over the service period, which corresponds to the vesting period. Compensation expense is recognized immediately for options that are fully vested on the date of grant. During the years ended December 31, 2014, 2013 and 2012, approximately 666,000, 348,000 and 128,000 stock-based compensation grants were made, respectively, for a total fair value of approximately \$2.8 million, \$1.4 million and \$677,000, net of estimated forfeitures, respectively.

The table below presents information related to stock option activity for the years ended December 31, 2014, 2013 and 2012 (in thousands):

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Total intrinsic value of stock options exercised	\$ 3,505	\$ 1,649	\$ 3,472
Cash received from stock option exercises	7,697	3,281	3,325
Excess tax benefit from the exercise of stock options	576	259	877

Changes in stock options for the year ended December 31, 2014, consisted of the following (shares and intrinsic value in thousands):

	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Remaining Contractual Term (in years)</u>	<u>Intrinsic Value</u>
2014:				
Beginning balance	3,008	\$ 12.14		
Granted	666	12.59		
Exercised	(878)	11.03		
Forfeited/expired	(5)	13.52		
Outstanding at December 31	<u>2,791</u>	12.60	3.7	\$ 13,210
Exercisable	1,475	12.44	3.6	7,209
Ending vested and expected to vest	2,710	12.60	1.9	12,833

The weighted average grant-date fair value of options granted during the years ended December 31, 2014, 2013 and 2012 was \$4.27, \$5.31 and \$5.28, respectively.

The following table summarizes information about stock options outstanding at December 31, 2014 (shares in thousands):

<u>Range of Exercise</u>	<u>Options Outstanding</u>			<u>Options Exercisable</u>	
	<u>Number Outstanding</u>	<u>Weighted Average Remaining Contractual Life (in years)</u>	<u>Weighted Average Exercise Price</u>	<u>Number Exercisable</u>	<u>Weighted Average Exercise Price</u>
\$ 9.71 - \$11.53	778	1.32	\$ 10.80	678	\$ 10.93
\$ 12.06 - \$13.14	779	6.21	12.40	67	13.02
\$ 13.16 - \$13.16	85	2.48	13.16	70	13.16
\$ 13.75 - \$16.41	1,149	3.58	13.90	660	13.86
\$ 9.71 - \$16.41	<u>2,791</u>			<u>1,475</u>	

12. SEGMENT REPORTING AND FOREIGN OPERATIONS

We report our operations in two operating segments: cardiovascular and endoscopy. Our cardiovascular segment consists of cardiology and radiology medical device products which assist in diagnosing and treating coronary artery disease, peripheral vascular disease and other non-vascular diseases and includes embolization devices and the CRM/EP devices we acquired through our acquisition of Thomas Medical. Our endoscopy segment consists of gastroenterology and pulmonology medical device products which assist in the palliative treatment of expanding esophageal, tracheobronchial and biliary strictures caused by malignant tumors. We evaluate the performance of our operating segments based on operating income (loss). Listed below are the sales by business segment for the years ended December 31, 2014, 2013 and 2012 (in thousands):

	<u>% Change</u>	<u>2014</u>	<u>% Change</u>	<u>2013</u>	<u>% Change</u>	<u>2012</u>
Cardiovascular						
Stand-alone devices	15%	\$ 143,712	10 %	\$ 125,445	12%	\$ 114,242
Custom kits and procedure trays	7%	111,076	10 %	103,700	3%	94,586
Inflation devices	10%	72,538	(4)%	66,182	2%	68,979
Catheters	17%	87,550	16 %	75,131	17%	64,878
Embolization devices	31%	43,855	(1)%	33,395	8%	33,870
CRM/EP	17%	32,975	1,359 %	28,271	—%	1,938
Total	14%	491,706	14 %	432,124	9%	378,493
Endoscopy						
Endoscopy devices	6%	17,983	7 %	16,925	31%	15,795
Total	14%	\$ 509,689	14 %	\$ 449,049	10%	\$ 394,288

During the years ended December 31, 2014, 2013 and 2012, we had foreign sales of approximately \$198.3 million, \$165.8 million and \$146.3 million, respectively, or approximately 39%, 37% and 37%, respectively, of total sales, primarily in China, Japan, Germany, France, the United Kingdom and Russia. Foreign sales are attributed based on location of the customer receiving the product.

Our long-lived assets by geographic area at December 31, 2014, 2013 and 2012, consisted of the following (in thousands):

	<u>2014</u>	<u>2013</u>	<u>2012</u>
United States	\$ 177,627	\$ 178,130	\$ 176,644
Ireland	49,708	50,274	48,182
Other foreign countries	16,836	14,866	9,977
Total	\$ 244,171	\$ 243,270	\$ 234,803

Financial information relating to our reportable operating segments and reconciliations to the consolidated totals for the years ended December 31, 2014, 2013 and 2012, are as follows (in thousands):

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Revenues			
Cardiovascular	\$ 491,706	\$ 432,124	\$ 378,493
Endoscopy	17,983	16,925	15,795
Total revenues	<u>509,689</u>	<u>449,049</u>	<u>394,288</u>
Operating expenses			
Cardiovascular	175,152	157,479	142,089
Endoscopy	9,904	9,044	10,262
Total operating expenses	<u>185,056</u>	<u>166,523</u>	<u>152,351</u>
Operating income (loss)			
Cardiovascular	38,601	26,597	30,411
Endoscopy	1,565	1,247	(770)
Total operating income	<u>40,166</u>	<u>27,844</u>	<u>29,641</u>
Total other expense - net	(8,594)	(8,005)	(2,023)
Income tax expense	8,598	3,269	7,908
Net income	<u>\$ 22,974</u>	<u>\$ 16,570</u>	<u>\$ 19,710</u>

Total assets by business segment at December 31, 2014, 2013 and 2012, consisted of the following (in thousands):

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Cardiovascular	\$ 734,940	\$ 716,659	\$ 692,689
Endoscopy	12,225	11,624	12,620
Total	<u>\$ 747,165</u>	<u>\$ 728,283</u>	<u>\$ 705,309</u>

Total depreciation and amortization by business segment for the years ended December 31, 2014, 2013 and 2012, consisted of the following (in thousands):

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Cardiovascular	\$ 34,975	\$ 31,594	\$ 21,441
Endoscopy	954	948	1,093
Total	<u>\$ 35,929</u>	<u>\$ 32,542</u>	<u>\$ 22,534</u>

Total capital expenditures by business segment for the years ended December 31, 2014, 2013 and 2012, consisted of the following (in thousands):

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Cardiovascular	\$ 33,660	\$ 59,421	\$ 64,059
Endoscopy	521	84	584
Total	<u>\$ 34,181</u>	<u>\$ 59,505</u>	<u>\$ 64,643</u>

13. ROYALTY AGREEMENTS

During 2010, in connection with our acquisition of BioSphere, we entered into a running royalty agreement as part of a partnership between BioSphere and L'Assistance Publique-Hôpitaux de Paris, referred to as "AP-HP," pursuant to which AP-HP has granted us the exclusive license to use two United States patents and their foreign counterparts that we jointly own with AP-HP relating to microspheres. We are required to pay to AP-HP a royalty on the commercial sale of any products that incorporate technology covered by the subject patents. We may sublicense these exclusive rights under the agreement only with the prior written consent of AP-HP, which consent cannot be unreasonably withheld. Under the terms of the royalty agreement, our exclusive license extends for both (i) the term of jointly owned U.S. and foreign counterpart patents and (ii) as long as the products and specialties implementing the patents are marketed. BioSphere filed patent applications which, if issued, will expire in approximately January 2031. The royalty rate in the agreement is 5.0% of net sales until the patents expire, and 2.5% of net sales thereafter as long as the product is sold. We paid or accrued approximately \$1.5 million, \$1.3 million and \$1.4 million in royalty payments to AP-HP for the years ended December 31, 2014, 2013 and 2012, respectively.

See Note 2 for a discussion of additional future royalty commitments related to acquisitions.

14. EMPLOYEE BENEFIT PLANS

We have a contributory 401(k) savings and profit sharing plan (the "Plan") covering all U.S. full-time employees who are at least 18 years of age. The Plan has a 90-day minimum service requirement. We may contribute, at our discretion, matching contributions based on the employees' compensation. Contributions we made to the Plan for the years ended December 31, 2014, 2013 and 2012, totaled approximately \$1.8 million, \$429,000 and \$1.5 million, respectively. We have defined contribution plans covering some of our foreign employees. We contribute between 2% and 32% of the employee's compensation for certain foreign non-management employees, and between 2% and 32% of the employee's compensation for certain foreign management employees. Contributions made to these plans for the years ended December 31, 2014, 2013 and 2012, totaled approximately \$912,000, \$748,000 and \$724,000, respectively.

15. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

Quarterly data for the years ended December 31, 2014 and 2013 consisted of the following (in thousands, except per share amounts):

	Quarter Ended			
	March 31	June 30	September 30	December 31
2014				
Net sales	\$ 119,236	\$ 128,865	\$ 128,808	\$ 132,780
Gross profit	52,043	55,624	57,421	60,134
Income from operations	6,489	7,384	12,076	14,217
Income tax expense	1,063	1,366	2,489	3,680
Net income	2,823	3,716	7,764	8,671
Basic earnings per common share	0.07	0.09	0.18	0.20
Diluted earnings per common share	0.07	0.09	0.18	0.20
2013				
Net sales	\$ 103,948	\$ 109,875	\$ 115,210	\$ 120,016
Gross profit	42,993	46,985	51,030	53,359
Income from operations	1,757	6,780	8,391	10,916
Income tax expense (benefit)	(459)	1,253	833	1,642
Net income	671	3,752	5,607	6,540
Basic earnings per common share	0.02	0.09	0.13	0.15
Diluted earnings per common share	0.02	0.09	0.13	0.15

Basic and diluted earnings per share are computed independently for each of the quarters presented. Therefore, the sum of the quarterly amounts may not equal the total computed for the year.

16. FAIR VALUE MEASUREMENTS

Our financial assets and (liabilities) carried at fair value measured on a recurring basis as of December 31, 2014 and 2013, consisted of the following (in thousands):

Description	Fair Value Measurements Using			
	Total Fair Value at December 31, 2014	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant Unobservable inputs (Level 3)
Interest rate swap (1)	\$ 573	\$ —	\$ 573	\$ —

Description	Fair Value Measurements Using			
	Total Fair Value at December 31, 2013	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant Unobservable inputs (Level 3)
Interest rate swap (1)	\$ 1,203	\$ —	\$ 1,203	\$ —

(1) The fair value of the interest rate swap is determined based on forward yield curves.

Certain of our business combinations involve the potential for the payment of future contingent consideration, generally based on a percentage of future product sales or upon attaining specified future revenue milestones. See Note 2 for further information regarding these acquisitions. The contingent consideration liability is re-measured at the estimated fair value at each reporting period with the change in fair value recognized within operating expenses in the accompanying consolidated statements of income. We measure the initial liability and re-measure the liability on a recurring basis using Level 3 inputs as defined under authoritative guidance for fair value measurements. Changes in the fair value of our contingent consideration liability during the years ended December 31, 2014 and 2013, consisted of the following (in thousands):

	2014	2013
Beginning balance	\$ 2,526	\$ 6,697
Fair value adjustments recorded to income during the period	(572)	(4,094)
Contingent payments made	(68)	(77)
Ending balance	\$ 1,886	\$ 2,526

The recurring Level 3 measurement of our contingent consideration liability includes the following significant unobservable inputs at December 31, 2014 and 2013 (amount in thousands):

Contingent consideration liability	Fair value at December 31, 2014	Valuation technique	Unobservable inputs	Range
Revenue-based payments	\$ 1,610	Discounted cash flow	Discount rate	1% - 14%
			Probability of milestone payment	90%
			Projected year of payments	2015-2028
Other payments	\$ 276	Discounted cash flow	Discount rate	5%
			Probability of milestone payment	100%
			Projected year of payments	2015-2016
Contingent consideration liability	Fair value at December 31, 2013	Valuation technique	Unobservable inputs	Range
Revenue-based payments	\$ 2,282	Discounted cash flow	Discount rate	11% - 15%
			Probability of milestone payment	90%
			Projected year of payments	2014-2028
Other payments	\$ 244	Discounted cash flow	Discount rate	5.4%
			Probability of milestone payment	100%
			Projected year of payments	2014-2016

The contingent consideration liability is re-measured to fair value each reporting period using projected revenues, discount rates, probabilities of payment, and projected payment dates. Projected contingent payment amounts are discounted back to the current period using a discounted cash flow model. Projected revenues are based on our most recent internal operational budgets and long-range strategic plans. Increases (decreases) in discount rates and the time to payment may result in lower (higher) fair value measurements. A decrease in the probability of any milestone payment may result in lower fair value measurements. An increase (decrease) in either the discount rate or the time to payment, in isolation, may result in a significantly lower (higher) fair value measurement.

Our determination of the fair value of the contingent consideration liability could change in future periods based upon our ongoing evaluation of these significant unobservable inputs. We intend to record any such change in fair value to operating expenses in our consolidated statements of income. As of December 31, 2014, approximately \$803,000 was included in other long-term obligations and \$1.1 million was included in accrued expenses in our consolidated balance sheet. As of December 31, 2013, approximately \$2.3 million was included in other long-term obligations and \$274,000 was included in accrued expenses in our consolidated balance sheet. The cash paid to settle the contingent consideration liability recognized at fair value as of the acquisition date (including measurement-period adjustments) has been reflected as a cash outflow from financing activities in the accompanying consolidated statements of cash flows.

During the years ended December 31, 2014, 2013 and 2012, we had losses of approximately \$1.4 million, \$8.2 million, and \$55,000, respectively, related to the measurement of non-financial assets at fair value on a nonrecurring basis subsequent to their initial recognition. Of the total loss in 2014, approximately \$1.1 million related to the impairment of our intangible assets related to our Ostial acquisition (see Note 4) during the third quarter of 2014. The non-recurring fair value of the Ostial intangible asset as of September 30, 2014 was approximately \$447,000 for developed technology. The fair value of these non-financial assets was measured using Level 3 inputs.

During the quarter ended December 31, 2012, we recognized an impairment charge of approximately \$2.4 million, which is included in other expense in the accompanying consolidated statement of income, related to an investment in a privately-held company accounted for at cost. As of December 31, 2012, there was no remaining cost included in our consolidated balance sheets related to this investment, which we deemed to be an appropriate valuation due to the financial position of the investee.

The carrying amount of cash and cash equivalents, receivables, and trade payables approximates fair value because of the immediate, short-term maturity of these financial instruments. The carrying amount of long-term debt approximates fair value, as determined by borrowing rates estimated to be available to us for debt with similar terms and conditions. The fair value of assets and liabilities whose carrying value approximates fair value is determined using Level 2 inputs, with the exception of cash and cash equivalents (Level 1).

SUPPLEMENTARY FINANCIAL DATA

The supplementary financial information required by Item 302 of Regulation S-K is contained in Note 15 to our consolidated financial statements set forth above.

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

None.

Item 9A. Controls and Procedures.

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the design and operation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934 ("Exchange Act"), as of December 31, 2014. Based on this evaluation, our principal executive officer and principal financial officer concluded that as of December 31, 2014, our disclosure controls and procedures were effective, at a reasonable assurance level, to ensure that information we are required to disclose in the reports we file or submit under the Exchange Act is (a) recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and is (b) accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2014. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control-Integrated Framework (2013)*. Based on those criteria and our management's assessment, our management concluded that, as of December 31, 2014, our internal control over financial reporting was effective.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

During the quarter ended December 31, 2014, there were no changes in our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934).

Our independent registered public accountants have also issued an audit report on our internal control over financial reporting. Their report appears below.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the internal control over financial reporting of Merit Medical Systems, Inc. and subsidiaries (the “Company”) as of December 31, 2014, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2014 of the Company and our report dated March 5, 2015 expressed an unqualified opinion on those financial statements and financial statement schedule.

/s/ DELOITTE & TOUCHE LLP

Salt Lake City, Utah
March 5, 2015

Item 9B. Other Information.

None.

PART III

Items 10, 11, 12, 13 and 14.

These items are incorporated by reference to our definitive proxy statement relating to our Annual Meeting of Shareholders scheduled for May 21, 2015. We anticipate that our definitive proxy statement will be filed with the SEC not later than 120 days after December 31, 2014, pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) Documents filed as part of this Report:

(1) Financial Statements. The following consolidated financial statements and the notes thereto, and the Reports of Independent Registered Public Accounting Firm are incorporated by reference as provided in Item 8 and Item 9A of this report:

Report of Independent Registered Public Accounting Firm — Internal Control

Report of Independent Registered Public Accounting Firm — Financial Statements

Consolidated Balance Sheets as of December 31, 2014 and 2013

Consolidated Statements of Income for the Years Ended December 31, 2014, 2013 and 2012

Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2014, 2013 and 2012

Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2014, 2013 and 2012

Consolidated Statements of Cash Flows for the Years Ended December 31, 2014, 2013 and 2012

Notes to Consolidated Financial Statements

(2) Financial Statement Schedule.

Schedule II - Valuation and qualifying accounts

Years Ended December 31, 2014, 2013 and 2012
(In thousands)

<u>Description</u>	<u>Balance at</u> <u>Beginning of Year</u>	<u>Additions Charged to</u> <u>Costs and Expenses (a)</u>	<u>Deduction (b)</u>	<u>Balance at</u> <u>End of Year</u>
ALLOWANCE FOR UNCOLLECTIBLE				
ACCOUNTS:				
2012	\$ (464)	\$ (545)	\$ 117	\$ (892)
2013	(892)	(376)	428	(840)
2014	(840)	(83)	30	(893)

(a) We record a bad debt provision based upon historical experience and a review of individual customer balances.

(b) When an individual customer balance becomes impaired and is deemed uncollectible, a deduction is made against the allowance for uncollectible accounts.

Years Ended December 31, 2014, 2013 and 2012
(In thousands)

<u>Description</u>	<u>Balance at</u> <u>Beginning of Year</u>	<u>Additions Charged to</u> <u>Costs and Expenses (c)</u>	<u>Deduction</u>	<u>Balance at</u> <u>End of Year</u>
TAX VALUATION ALLOWANCE:				
2012	\$ (361)	\$ (864)	\$ —	\$ (1,225)
2013	(1,225)	(138)	—	(1,363)
2014	(1,363)	(240)	—	(1,603)

(c) We record a valuation allowance against a deferred tax asset when it is determined that it is more likely than not that the deferred tax asset will not be realized.

(b) Exhibits:

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

	Description	Exhibit No.
2.1	Agreement and Plan of Merger dated May 13, 2010 by and among Merit Medical Systems, Inc., Merit BioAcquisition Co., and BioSphere Medical, Inc.*	[Form 8-K filed May 13, 2010, Exhibit 2.1]
2.2	Stock Purchase Agreement dated November 26, 2012 by and between Merit Medical Systems, Inc. and Vital Signs, Inc.*	[Form 8-K/A filed January 24 2013, Exhibit 2.1]
3.1	Articles of Incorporation as amended and restated*	[Form 10-Q filed August 14, 1996, Exhibit No. 1]
3.2	Amended and Restated Bylaws*	[Form 10-K filed February 29, 2012, Exhibit No. 3.2]
4	Specimen Certificate of the Common Stock*	[Form S-18 filed October 19, 1989, Exhibit No. 10]
4.3	Articles of Amendment of the Articles of Incorporation dated May 14, 1993*	[Form S-3 filed February 14, 2005, Exhibit 4.3]
4.4	Articles of Amendment to Articles of Incorporation dated June 6, 1996*	[Form S-3 filed February 14, 2005, Exhibit 4.4]
4.5	Articles of Amendment to Articles of Incorporation dated June 12, 1997*	[Form S-3 filed February 14, 2005, Exhibit 4.5]
4.7	Articles of Amendment to the Articles of Incorporation dated May 22, 2003*	[Form S-3 filed February 14, 2005, Exhibit 4.7]
4.8	Articles of Amendment to the Articles of Incorporation dated May 23, 2008*	[Form 8-K filed May 28, 2008, Exhibit 3.1]
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	Lease Agreement dated as of June 8, 1993 for office and manufacturing facility*	[Form 10-K for year ended December 31, 1994, Exhibit No. 10.4]
10.4	Amended and Restated Deferred Compensation Plan*†	[Form 10-K for year ended December 31, 2003, Exhibit No. 10.12]
10.5	Purchase Agreement dated November 17, 2004 between Merit Medical Systems, Inc. and MedSource Packaging Concepts LLC*	[Form 10-K for year ended December 31, 2004, Exhibit No. 10.13]
10.6	Seventh Amendment to the First Restatement of the Merit Medical Systems, Inc. 401(k) Profit Sharing Plan*†	[Form 10-K for year ended December 31, 2006, Exhibit No. 10.18]

Description	Exhibit No.
10.7 Stock Purchase Agreement by and between Merit Medical Systems, Inc. and Sheen Man Co. LTD, dated April 1, 2007*	[Form 10-Q filed May 9, 2007, Exhibit No. 10.19]
10.8 Eighth Amendment to the First Restatement of the Merit Medical Systems, Inc. 401(k) Profit Sharing Plan*†	[Form 10-K for year ended December 31, 2007, Exhibit No. 10.20]
10.9 Ninth Amendment to the First Restatement of the Merit Medical Systems, Inc. 401(k) Profit Sharing Plan*†	[Form 10-K for year ended December 31, 2007, Exhibit No. 10.21]
10.10 Tenth Amendment to the First Restatement of the Merit Medical Systems, Inc. 401(k) Profit Sharing Plan*†	[Form 10-K for year ended December 31, 2007, Exhibit No. 10.22]
10.11 Merit Medical Systems, Inc. Amended and Restated Deferred Compensation Plan, effective January 1, 2008*†	[Form 8-K filed December 18, 2008, Exhibit 10.1]
10.12 Eleventh Amendment to the First Restatement of the Merit Medical Systems, Inc. 401(k) Profit Sharing Plan*†	[Form 10-K for year ended December 31, 2008, Exhibit No. 10.29]
10.13 Twelfth Amendment to the First Restatement of the Merit Medical Systems, Inc. 401(k) Profit Sharing Plan*†	[Form 10-K for year ended December 31, 2008, Exhibit No. 10.30]
10.14 Second Amendment to the Merit Medical Systems, Inc. 2006 Long-Term Incentive Plan*†	[Form 8-K filed May 27, 2009, Exhibit 10.1]
10.15 Second Restatement of the Merit Medical Systems, Inc. 401(k) Profit Sharing Plan*†	[Form 8-K filed January 7, 2010, Exhibit 10.1]
10.16 Stockholder and Voting Agreement, dated as of May 13, 2010, among Merit Medical Systems, Inc., Cerberus Partners, L.P. and Cerberus International, Ltd.*	[Form 8-K/A filed May 14, 2010, Exhibit 10.1]
10.17 Amendment No. 1 to Stockholder and Voting Agreement, dated as of June 1, 2010, among Merit Medical Systems, Inc., Cerberus Partners, L.P. and Cerberus International, Ltd. *	[Form 8-K filed June 2, 2010, Exhibit 10.2]
10.18 Credit Agreement dated as of September 10, 2010 by and among Merit Medical Systems, Inc. and Wells Fargo Bank, National Association*	[Form 8-K/A filed September 16, 2010, Exhibit 10.1]
10.19 Amended and Restated Employment Agreement of Fred P. Lampropoulos dated December 30, 2010*†	[Form 10-K for year ended December 31, 2010, Exhibit No. 10.36]
10.20 Amended and Restated Employment Agreement of Kent Stanger dated December 30, 2010*†	[Form 10-K for year ended December 31, 2010, Exhibit No. 10.37]
10.21 Amended and Restated Employment Agreement of Marty Stephens dated December 30, 2010*†	[Form 10-K for year ended December 31, 2010, Exhibit No. 10.38]
10.22 Amended and Restated Employment Agreement of Rashelle Perry dated December 30, 2010*†	[Form 10-K for year ended December 31, 2010, Exhibit No. 10.39]
10.23 Amended and Restated Employment Agreement of Arlin D. Nelson dated December 30, 2010*†	[Form 10-K for year ended December 31, 2010, Exhibit No. 10.40]

	<u>Description</u>	<u>Exhibit No.</u>
10.24	Stock Purchase Agreement by and between Vital Signs, Inc. and Merit Medical Systems, Inc., dated as of November 26, 2012*	[Form 8-K/A filed November 30, 2012, Exhibit 2.1]
10.25	Amended and Restated Credit Agreement dated December 19, 2012 by and among Merit Medical Systems, Inc. and Wells Fargo Bank, National Association*	[Form 8-K filed December 21, 2012, Exhibit 10.1]
10.26	Amended and Restated Stock Purchase Agreement by and between Vital Signs, Inc. and Merit Medical Systems, Inc., dated as of November 26, 2012*	[Form 8-K/A filed January 24, 2013, Exhibit 2.1]
10.27	First Amendment to Amended and Restated Credit Agreement, dated as of October 4, 2013, by and among Merit Medical Systems, Inc., certain subsidiaries of Merit Medical Systems, Inc., the lenders identified therein and Wells Fargo Bank, as administrative agent for the lenders*	[Form 10-Q for quarter ended September 30, 2013, Exhibit No. 10.1]
10.28	Employment Agreement of Ron Frost dated December 12, 2014†	Filed herewith
21	Subsidiaries of Merit Medical Systems, Inc.	Filed herewith
23.1	Consent of Independent Registered Public Accounting Firm	Filed herewith
31.1	Certification of Chief Executive Officer	Filed herewith
31.2	Certification of Chief Financial Officer	Filed herewith
32.1	Certification of Chief Executive Officer	Filed herewith
32.2	Certification of Chief Financial Officer	Filed herewith
101	The following materials from the Merit Medical Systems, Inc. Annual Report on Form 10-K for the fiscal year ended December 31, 2014, formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Statements of Operations, (ii) Consolidated Balance Sheets, (iii) Consolidated Statements of Comprehensive Income (iv) Consolidated Statements of Stockholders' Equity, (v) Consolidated Statements of Cash Flows, and (vi) related notes.	Filed herewith

* These exhibits are incorporated herein by reference.

† Indicates management contract or compensatory plan or arrangement.

(c) Schedules:

None

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, on March 5, 2015.

MERIT MEDICAL SYSTEMS, INC.

By: /s/ FRED P. LAMPROPOULOS

Fred P. Lampropoulos, President and
Chief Executive Officer

ADDITIONAL SIGNATURE AND POWER OF ATTORNEY

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Annual Report on form 10-K has been signed below by the following persons in the capacities indicated on March 5, 2015.

<u>Signature</u>	<u>Capacity in Which Signed</u>
<u>/s/: FRED P. LAMPROPOULOS</u> Fred P. Lampropoulos	President, Chief Executive Officer and Director (Principal executive officer)
<u>/s/: KENT W. STANGER</u> Kent W. Stanger	Chief Financial Officer, Secretary, Treasurer and Director (Principal financial and accounting officer)
<u>/s/: A. SCOTT ANDERSON</u> A. Scott Anderson	Director
<u>/s/: RICHARD W. EDELMAN</u> Richard W. Edelman	Director
<u>/s/: NOLAN E. KARRAS</u> Nolan E. Karras	Director
<u>/s/: FRANKLIN J. MILLER</u> Franklin J. Miller	Director
<u>/s/: MICHAEL E. STILLABOWER</u> Michael E. Stillabower	Director

CORPORATE INFORMATION

EXECUTIVE OFFICERS

Fred P. Lampropoulos

Chairman, Chief Executive Officer

Kent W. Stanger

Chief Financial Officer, Secretary, Treasurer

Martin R. Stephens

Executive Vice President, Sales

Rashelle Perry

Chief Legal Officer

Ronald Frost

Chief Operating Officer

Gregory L. Barnett

Chief Accounting Officer

BOARD OF DIRECTORS

Fred P. Lampropoulos

Chairman, Chief Executive Officer

A. Scott Anderson

President and Chief Executive Officer

Zions First National Bank

Richard W. Edelman

Private Investor

Nolan E. Karras

Chairman and CEO

The Karras Company, Inc.

Franklin J. Miller, M.D.

Emeritus Professor, Interventional Radiology

University of Utah

Kent W. Stanger

Chief Financial Officer, Secretary, Treasurer

Michael E. Stillabower, M.D.

Director, Cardiovascular Clinical Trials,

Christiana Care Health Systems, Wilmington, Delaware

Clinical Associate Professor of Medicine,

Jefferson Medical College, Philadelphia, Pennsylvania

CORPORATE OFFICES

Merit Medical Systems, Inc.

1600 West Merit Parkway

South Jordan, Utah 84095

(801) 253-1600

INDEPENDENT ACCOUNTANTS

Deloitte & Touche LLP

LEGAL COUNSEL

Parr Brown Gee & Loveless

Corporate and Securities Counsel

Stoel Rives LLP

Intellectual Property Counsel

Workman Nydegger

Intellectual Property 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, 2014. A copy may be obtained by written request from Kent W. Stanger, Corporate Secretary, at Merit's corporate office in South Jordan, Utah.

ANNUAL MEETING

All shareholders are invited to attend Merit's Annual Meeting of shareholders on Thursday, May 21, 2015, at 3:00 p.m. at Merit'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

MARKET INFORMATION

Merit's common stock is traded on the NASDAQ Global Select Market System under the symbol "MMSI." As of March 2, 2015, the number of shares of common stock outstanding was 43,632,232 held by approximately 134 shareholders of record, not including shareholders whose shares are held in securities position listings. The following chart sets forth the high and low closing sale prices for Merit's common stock for the last two years:

	2014	High	Low
First Quarter		\$16.49	\$13.25
Second Quarter		\$16.76	\$12.45
Third Quarter		\$15.77	\$11.41
Fourth Quarter		\$17.69	\$11.61
	2013	High	Low
First Quarter		\$14.35	\$10.10
Second Quarter		\$12.36	\$9.15
Third Quarter		\$14.30	\$11.15
Fourth Quarter		\$17.08	\$12.12

Merit has never declared or paid any cash dividends on its common stock. Merit 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

Anne-Marie Wright

Vice President, Corporate Communications
(801) 253-1600

FOR MORE INFORMATION, CONTACT

Kent W. Stanger

Chief Financial Officer, Secretary, Treasurer
Merit Medical Systems, Inc.
(801) 253-1600

This report includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements other than statements of historical fact are forward-looking statements for purposes of these provisions. Merit assumes no obligation to update any forward-looking statement. Although Merit believes the expectations reflected in the forward-looking statements contained herein are reasonable, there can be no assurance that such expectations or any of the forward-looking statements will prove to be correct, and actual results will likely differ, and may differ materially, from those projected or assumed in the forward-looking statements. Merit's future financial condition and results of operations, as well as any forward-looking statements, are subject to inherent risks and uncertainties, including factors referenced in Merit's press releases and filings with the Securities and Exchange Commission. A number of the factors that may have a direct bearing on Merit's financial condition and operating results are described under "Risk Factors" beginning on page 19 of Merit's Annual Report on Form 10-K, filed with the U.S. Securities and Exchange Commission on March 5, 2015.

VISION. GROWTH. PROFITABILITY.



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