MERIT MEDICAL SYSTEMS INC
Form 10-Q
November 09, 2018
MERIT MEDICAL SYSTEMS INC0000856982Large Accelerated
Filer2018Q3falseFALSEFALSE2018-09-30--12-312,0111,76993,68072,42046,08838,1275,0005,000——100,000100,00054,8
years2.19.9159.915——00008569822018-01-012018-09-30xbrli:shares00008569822018-11-05iso4217:USD00008569822018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2018

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE TRANSITION PERIOD FROM TO .

Commission File Number 0-18592

MERIT MEDICAL SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Utah	**87-0447695**
(State or other jurisdiction of	(IRS Employer Identification

incorporation or organization)	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**

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

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

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

Large Accelerated Filer x	Accelerated Filer o	Non-Accelerated Filer o	Smaller Reporting Company o	Emerging Growth Company o

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

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

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

Common Stock	54,833,602
Title or class	Number of Shares Outstanding at November 5, 2018

Table of Contents

TABLE OF CONTENTS

Table of Contents

PART I - FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

AS OF SEPTEMBER 30, 2018 AND DECEMBER 31, 2017

(In thousands)

	September 30, 2018 (unaudited)	December 31, 2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 51,955	$ 32,336
Trade receivables — net of allowance for uncollectable accounts — 2018 — $2,011 and 2017 — $1,769	129,282	105,536
Other receivables	8,903	9,429
Inventories	181,439	155,288
Prepaid expenses and other assets	11,720	9,096
Prepaid income taxes	3,307	3,225
Income tax refund receivables	1,043	1,211
Total current assets	387,649	316,121
PROPERTY AND EQUIPMENT:		

Land and land improvements	26,926	19,877
Buildings	150,880	147,356
Manufacturing equipment	211,215	197,651
Furniture and fixtures	53,869	49,528
Leasehold improvements	33,365	31,161
Construction-in-progress	48,166	32,896
Total property and equipment	524,421	478,469
Less accumulated depreciation	(204,496)	(185,649)
Property and equipment — net	319,925	292,820
OTHER ASSETS:		
Intangible assets:		
Developed technology — net of accumulated amortization — 2018 — $93,680 and 2017 — $72,420	224,540	167,771
Other — net of accumulated amortization — 2018 — $46,088 and 2017 — $38,127	64,565	59,553
Goodwill	249,023	238,147
Deferred income tax assets	2,254	2,359
Other assets	61,927	35,040

Total other assets	602,309		502,870
TOTAL	$ 1,309,883	$	1,111,811

See condensed notes to consolidated financial statements. (continued)

3

Table of Contents

MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

AS OF SEPTEMBER 30, 2018 AND DECEMBER 31, 2017

(In thousands)

	September 30, 2018 (unaudited)	**December 31, 2017**
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade payables	$ 50,697	$ 34,931
Accrued expenses	65,530	58,932
Current portion of long-term debt	22,000	19,459
Income taxes payable	1,598	2,298
Total current liabilities	139,825	115,620
LONG-TERM DEBT	186,867	259,013
DEFERRED INCOME TAX LIABILITIES	23,102	23,289
LONG-TERM INCOME TAXES PAYABLE	4,846	4,846
LIABILITIES RELATED TO UNRECOGNIZED TAX BENEFITS	2,746	2,746
DEFERRED COMPENSATION PAYABLE	12,176	11,181
DEFERRED CREDITS	2,296	2,403
	14,814	16,379

OTHER LONG-TERM OBLIGATIONS		
Total liabilities	386,672	435,477
COMMITMENTS AND CONTINGENCIES (Notes 5, 10, 11, and 14)		
STOCKHOLDERS' EQUITY:		
Preferred stock — 5,000 shares authorized as of September 30, 2018 and December 31, 2017; no shares issued	—	—
Common stock, no par value; shares authorized — 2018 and 2017 - 100,000; issued and outstanding as of September 30, 2018 - 54,802 and December 31, 2017 -	568,051	353,392

	50,248			
Retained earnings	354,236		321,408	
Accumulated other comprehensive income	924		1,534	
Total stockholders' equity	923,211		676,334	
TOTAL	$	1,309,883	$	1,111,811

See condensed notes to consolidated financial statements. (concluded)

4

Table of Contents

MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

(In thousands, except per share amounts - unaudited)

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2018	**2017**	**2018**	**2017**
NET SALES	$ 221,659	$ 179,337	$ 649,504	$ 536,955
COST OF SALES	119,620	98,823	359,400	296,358
GROSS PROFIT	102,039	80,514	290,104	240,597
OPERATING EXPENSES:				
Selling, general and administrative	66,382	54,716	200,389	169,896
Research and development	14,525	12,838	44,163	38,676
Intangible asset impairment charge	657	—	657	—
Contingent consideration expense (benefit)	(661)	20	(442)	39
Acquired in-process research and development	75	12,061	382	12,136
Total operating expenses	80,978	79,635	245,149	220,747
INCOME FROM OPERATIONS	21,061	879	44,955	19,850
OTHER INCOME (EXPENSE):				
Interest income	359	94	847	266
Interest expense	(2,329)	(1,590)	(8,064)	(5,935)
Gain on bargain purchase	—	(778)	—	10,796

Other income (expense) - net		294		(810)		(429)		(376)
Other income (expense) — net		(1,676)		(3,084)		(7,646)		4,751
INCOME (LOSS) BEFORE INCOME TAXES		19,385		(2,205)		37,309		24,601
INCOME TAX EXPENSE		2,766		1,364		4,481		3,884
NET INCOME (LOSS)	$	16,619	$	(3,569)	$	32,828	$	20,717
EARNINGS PER COMMON SHARE:								
Basic	$	0.31	$	(0.07)	$	0.64	$	0.43
Diluted	$	0.30	$	(0.07)	$	0.62	$	0.42
AVERAGE COMMON SHARES:								
Basic		53,431		50,150		51,434		48,332
Diluted		55,103		51,599		53,096		49,555

See condensed notes to consolidated financial statements.

Table of Contents

MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017
(In thousands - unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	**2017**	**2018**	**2017**
Net income	$ 16,619	$ (3,569)	$ 32,828	$ 20,717
Other comprehensive income (loss):				
Cash flow hedges	667	(144)	3,541	166
Less income tax benefit (expense)	(172)	56	(910)	(64)
Foreign currency translation adjustment	(1,637)	721	(3,241)	2,925
Less income tax (expense)	—	—	—	(252)
Total other comprehensive income (loss)	(1,142)	633	(610)	2,775
Total comprehensive income (loss)	$ 15,477	$ (2,936)	$ 32,218	$ 23,492

See condensed notes to consolidated financial statements.

Table of Contents

MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

(In thousands - unaudited)

	Nine Months Ended September 30,	
	2018	**2017**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 32,828	$ 20,717
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	50,436	39,388
Gain on bargain purchase	—	(10,796)
Loss on sales and/or abandonment of property and equipment	425	219
Write-off of patents and intangible assets	744	86
Acquired in-process research and development	382	12,136
	(106)	(111)

Amortization of deferred credits		
Amortization of long-term debt issuance costs	603	514
Deferred income taxes	—	(290)
Stock-based compensation expense	4,494	2,883
Changes in operating assets and liabilities, net of effects from acquisitions:		
Trade receivables	(25,482)	(10,963)
Other receivables	255	(449)
Inventories	(10,375)	(9,922)
Prepaid expenses and other current assets	(2,719)	(1,587)
Prepaid income taxes	(120)	(231)
Income tax refund receivables	134	280
Other assets	(1,370)	(2,992)
Trade payables	15,936	(876)
Accrued expenses	7,707	4,470
Income taxes payable	(1,528)	(764)
Deferred compensation payable	994	1,107

Other long-term obligations	(1,381)	574
Total adjustments	30,029	22,676
Net cash provided by operating activities	62,857	43,393
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures for:		
Property and equipment	(47,024)	(29,522)
Intangible assets	(2,234)	(1,927)
Proceeds from the sale of property and equipment	7	9
Issuance of note receivable	(10,750)	—
Cash paid in acquisitions, net of cash acquired	(122,770)	(103,500)
Net cash used in investing activities	(182,771)	(134,940)

See condensed notes to consolidated financial statements. (continued)

Table of Contents

MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

(In thousands - unaudited)

	Nine Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from issuance of common stock	$	213,276	$	143,069
Offering costs	(366)		(816)	
Proceeds from issuance of long-term debt	380,825		151,462	
Payments on long-term debt	(450,575)		(197,962)	
Contingent payments related to acquisitions	(184)		(45)	
Payment of taxes related to an exchange of common stock	(2,616)		—	
Net cash provided by financing activities	140,360		95,708	
EFFECT OF EXCHANGE	(827)		30	

RATES ON CASH				
NET INCREASE IN CASH AND CASH EQUIVALENTS	19,619		4,191	
CASH AND CASH EQUIVALENTS:				
Beginning of period	32,336		19,171	
End of period	$	51,955	$	23,362
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION				
Cash paid during the period for:				
Interest (net of capitalized interest of $468 and $371, respectively)	$	8,018	$	5,953
Income taxes	$	6,069	$	4,029
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES				
Property and equipment purchases in	$	3,058	$	1,394

accounts payable				
Acquisition purchases in accrued expenses and other long-term obligations	$	—	$	12,000
Merit common stock surrendered (43 and 0 shares, respectively) in exchange for exercise of stock options	$	2,262	$	—
See condensed notes to consolidated financial statements.			(concluded)	

8

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

1. Basis of Presentation. The interim consolidated financial statements of Merit Medical Systems, Inc. ("Merit," "we" or "us") for the three and nine-month periods ended September 30, 2018 and 2017 are not audited. Our consolidated financial statements are prepared in accordance with the requirements for unaudited interim periods and, consequently, do not include all disclosures required to be made in conformity with accounting principles generally accepted in the United States of America. In the opinion of our management, the accompanying consolidated financial statements contain all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of our financial position as of September 30, 2018 and December 31, 2017, and our results of operations and cash flows for the three and nine-month periods ended September 30, 2018 and 2017. The results of operations for the three and nine-month periods ended September 30, 2018 and 2017 are not necessarily indicative of the results for a full-year period. These interim consolidated financial statements should be read in conjunction with the financial statements included in our Annual Report on Form 10-K (the "2017 Form 10-K") for the year ended December 31, 2017, which was filed with the Securities and Exchange Commission (the "SEC") on March 1, 2018.

2. Inventories. Inventories at September 30, 2018 and December 31, 2017, consisted of the following (in thousands):

	September 30, 2018		**December 31, 2017**	
Finished goods	$	103,258	$	86,555
Work-in-process	20,546		12,799	
Raw materials	57,635		55,934	
Total Inventories	$	181,439	$	155,288

3. Stock-Based Compensation Expense. Stock-based compensation expense before income tax expense for the three and nine months ended September 30, 2018 and 2017, consisted of the following (in thousands):

	Three Months Ended September 30,						**Nine Months Ended September 30,**	
	2018		**2017**		**2018**		**2017**	
Cost of sales	$	241	$	189	$	657	$	453
Research and development	141		110		412		262	
Selling, general and administrative	1,291		893		3,425		2,168	
Stock-based compensation expense before taxes	$	1,673	$	1,192	$	4,494	$	2,883

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 September 30, 2018, the total remaining unrecognized compensation cost related to non-vested stock options, net of expected forfeitures, was approximately $20.7 million and is expected to be recognized over a weighted average period of 3.25 years.

During the three-month period ended September 30, 2018, we did not grant any new stock-based awards. During the nine-month period ended September 30, 2018, we granted stock-based awards representing 692,002 shares of our common stock. During the three and nine-month periods ended September 30, 2017, we granted stock-based awards representing 20,000 and approximately 1.3 million shares of our common stock, respectively. We use the Black-Scholes methodology to value the stock-based compensation expense for options. In applying the Black-Scholes methodology to the option grants, the fair value of our stock-based awards granted was estimated using the following assumptions for the periods indicated below:

Table of Contents

	Nine Months Ended September 30,	
	2018	**2017**
Risk-free interest rate	2.63% - 2.77%	1.77% - 1.83%
Expected option life	5.0 years	5.0 years
Expected dividend yield	—	—
Expected price volatility	34.06% - 34.32%	33.81% - 34.07%

The average risk-free interest rate is determined using the U.S. Treasury rate in effect as of the date of grant, based on the expected term of the stock options. We determine the expected term of the stock options using the historical exercise behavior of employees. The expected price volatility was determined using a weighted average of daily historical volatility of our stock price over the corresponding expected option 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.

4. 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):

	Three Months							**Nine Months**	
	Net Income		**Shares**	**Per Share Amount**		**Net Income**		**Shares**	**Per Share Amount**	
Period ended September 30, 2018:										
Basic EPS	$	16,619	53,431	$	0.31	$	32,828	51,434	$	0.64
Effect of dilutive stock options and warrants			1,672					1,662		
Diluted EPS	$	16,619	55,103	$	0.30	$	32,828	53,096	$	0.62
Stock options excluded from the calculation of common stock equivalents as the impact was anti-dilutive			667					462		
Period ended September 30, 2017:										
Basic EPS	$	(3,569)	50,150	$	(0.07)	$	20,717	48,332	$	0.43
			1,449					1,223		

Effect of dilutive stock options and warrants										
Diluted EPS	$	(3,569)	51,599	$	(0.07)	$	20,717	49,555	$	0.42
Stock options excluded from the calculation of common stock equivalents as the impact was anti-dilutive			200					434		

5. Acquisitions. During July 2018, we purchased 1,786,000 preferred limited liability company units of Cagent Vascular, LLC, a medical device company ("Cagent"), for approximately $2.2 million. Our investment has been accounted for as an equity investment reflected within other assets in the accompanying consolidated balance sheets because we are not able to exercise significant influence over the operations of Cagent. Our total investment in Cagent represents an ownership of approximately 19.5% of the outstanding limited liability company units.

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

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

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

On May 18, 2018, we paid $750,000 for a distribution agreement with QXMédical, LLC ("QXMédical") for the Q50® PLUS Stent Graft Balloon Catheter. We accounted for this acquisition as an asset purchase. We are amortizing the distribution agreement as an intangible asset over a period of ten years.

On April 6, 2018, we entered into long-term agreements with NinePoint Medical, Inc. (“NinePoint”), pursuant to which, we (a) became the exclusive worldwide distributor for the NvisionVLE® Imaging System with Real-time Targeting™ using Optical Coherence Tomography (OCT) and (b) acquired an option to purchase up to 100% of the outstanding equity in NinePoint throughout a three-month period commencing 18 months subsequent to the agreement date, both in exchange for total consideration of $10.0 million. We accounted for this transaction as an asset purchase. The results of operations related to the distribution agreement have been included in our endoscopy operating segment since the acquisition date. During the three and nine months ended September 30, 2018, our net sales of NinePoint products were approximately $1.4 million and $2.5 million, respectively. We believe the NinePoint products will enhance the product offerings of our endoscopy operating segment and will be another step in our strategy to add therapy and disease-state products to our portfolio. The NinePoint products have 510(k) clearance in the United States, and NinePoint is preparing a CE mark application. We plan to launch the NinePoint products globally on a measured basis.

In addition, on April 6, 2018, we made a loan to NinePoint for $10.5 million with a maturity date of April 6, 2023, at which time the loan, together with accrued interest thereon, will be due and payable. The loan bears interest at an annual rate of 9% and is collateralized by NinePoint's rights, interest and title to the NvisionVLE® Imaging System and substantially all other assets of NinePoint. This loan has been recorded as a note receivable within other long-term assets in our consolidated balance sheets.

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

During the three and nine-month periods ended September 30, 2018, our net sales of BD products were approximately $11.8 million and $30.3 million, respectively. It is not practical to separately report earnings related to the products acquired from BD, as we cannot split out sales costs related solely to the products we acquired from BD, principally because our sales representatives sell multiple products (including the products we acquired from BD) in our cardiovascular business segment. Acquisition-related costs associated with the BD acquisition, which are included in selling, general and administrative expenses in the accompanying consolidated statements of income, were

approximately $1.8 million for the nine-month period ended September 30, 2018. The following table summarizes the purchase price allocated to the assets acquired from BD (in thousands):
11

Table of Contents

Inventories	$	5,804
Property and equipment	748	
Intangibles		
Developed technology	74,000	
Customer list	4,200	
Trademarks	4,900	
Goodwill	10,613	
Total assets acquired	**$**	**100,265**

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

On October 2, 2017, we acquired a custom procedure pack business located in Melbourne, Australia from ITL Healthcare Pty Ltd. ("ITL"), for an aggregate purchase price of $11.3 million. We accounted for this acquisition as a business combination. The following table summarizes the aggregate purchase price allocated to the assets acquired from ITL (in thousands):

Assets Acquired		
Trade receivables	$	1,287
Other receivables	56	
Inventories	1,808	
Prepaid expenses and other assets	65	
Property and equipment	1,053	
Intangibles		
Customer lists	5,940	
Goodwill	3,945	
Total assets acquired	14,154	
Liabilities Assumed		
Trade payables	(216)	
Accrued expenses	(747)	
Deferred income tax liabilities	(1,901)	
Total liabilities assumed	(2,864)	

Total net assets acquired	**$**	**11,290**

We are amortizing the customer list on an accelerated basis over seven years. Acquisition-related costs associated with the ITL acquisition, which were included in selling, general and administrative expenses in the consolidated statements of income in the 2017 Form 10-K, were not material. The results of operations related to this acquisition have been included in our cardiovascular operating segment since the acquisition date. During the three and nine months ended September 30, 2018, our net sales of ITL products were approximately $1.9 million and $6.1 million, respectively. It is not practical to separately report the earnings related to the ITL acquisition, as we cannot split out sales costs related solely to the products we acquired from ITL, principally because our sales representatives sell multiple products (including the products we acquired from ITL) in our cardiovascular business segment.

On August 4, 2017, we acquired from Laurane Medical S.A.S. ("Laurane") and its shareholders inventories and the intellectual property rights associated with certain manual bone biopsy devices, manual bone marrow needles and muscle biopsy kits for an aggregate purchase price of $16.5 million. We also recorded a contingent consideration liability of $5.5 million related to royalties potentially payable to Laurane's shareholders pursuant to the terms of an intellectual property purchase agreement. We accounted for this acquisition as a business combination. The following table summarizes the aggregate purchase price (including contingent royalty payment liabilities) allocated to the assets acquired from Laurane (in thousands):

Table of Contents

Inventories	$	594
Intangibles		
Developed technology	14,920	
Customer list	120	
Goodwill	6,366	
Total assets acquired	**$**	**22,000**

We are amortizing the developed technology intangible asset over 12 years and the customer list on an accelerated basis over one year. The total weighted-average amortization period for these acquired intangible assets is 11.9 years. The sales and results of operations related to the acquisition have been included in our cardiovascular segment since the acquisition date and were not material. Acquisition-related costs associated with the Laurane acquisition, which were included in selling, general and administrative expenses in the consolidated statements of income of our 2017 Form 10-K, were not material.

On July 3, 2017, we acquired from Osseon LLC (“Osseon”) substantially all the assets related to Osseon’s vertebral augmentation products. We accounted for this acquisition as a business combination. The purchase price for the assets was approximately $6.8 million. Acquisition-related costs associated with the Osseon acquisition, which were included in selling, general and administrative expenses in the consolidated statements of income of our 2017 Form 10-K, were not material. The results of operations related to this acquisition have been included in our cardiovascular segment since the acquisition date. During the three and nine months ended September 30, 2018, our net sales of Osseon products were approximately $478,000 and $1.6 million, respectively. It is not practical to separately report the earnings related to the Osseon acquisition, as we cannot split out sales costs related solely to the products we acquired from Osseon, principally because our sales representatives sell multiple products (including the products we acquired from Osseon) in our cardiovascular business segment. The following table summarizes the purchase price allocated to the assets acquired (in thousands):

Inventories	$	979
Property and equipment	58	
Intangibles		
Developed technology	5,400	
Customer list	200	
Goodwill	203	
Total assets acquired	**$**	**6,840**

We are amortizing the developed technology intangible asset over nine years and customer lists on an accelerated basis over eight years. The total weighted-average amortization period for these acquired intangible assets is approximately 9.0 years.

On May 1, 2017, we entered into an agreement and plan of merger with Vascular Access Technologies, Inc. ("VAT"), pursuant to which we acquired the SAFECVAD™ device. We accounted for this acquisition as a business combination. The purchase price for the acquisition was $5.0 million. We also recorded $4.9 million of contingent consideration related to royalties potentially payable to VAT pursuant to the merger agreement. The following table summarizes the purchase price allocated to the net assets acquired (in thousands):

Intangibles

Developed technology	$	7,800
In-process technology	920	
Goodwill	4,281	
Deferred tax liabilities	(3,101)	
Total net assets acquired	**$**	**9,900**

We are amortizing the developed technology intangible asset over 15 years. The sales and results of operations related to the acquisition have been included in our cardiovascular segment since the acquisition date and were not material. Acquisition-related costs associated with the VAT acquisition, which were included in selling, general and administrative expenses in the consolidated statements of income of our 2017 Form 10-K, were not material.

Table of Contents

On January 31, 2017, we acquired the critical care division of Argon Medical Devices, Inc. ("Argon"), including a manufacturing facility in Singapore, the related commercial operations in Europe and Japan, and certain inventories and intellectual property rights within the United States. We made an initial payment of approximately $10.9 million and received a subsequent reduction to the purchase price of approximately $797,000 related to a working capital adjustment according to the terms of the purchase agreement. We accounted for the acquisition as a business combination.

Acquisition-related costs associated with the acquisition of the Argon critical care division during the year ended December 31, 2017, which were included in selling, general and administrative expenses in the consolidated statements of income of our 2017 Form 10-K, were approximately $2.6 million. The results of operations related to this acquisition have been included in our cardiovascular segment since the acquisition date. During the three and nine months ended September 30, 2018, our net sales of the Argon critical care products were approximately $11.0 million and $34.2 million, respectively. It is not practical to separately report the earnings related to the Argon critical care acquisition, as we cannot split out sales costs related solely to the products we acquired from Argon, principally because our sales representatives sell multiple products (including the products we acquired from Argon) in our cardiovascular business segment.

The assets and liabilities in the purchase price allocation for the Argon critical care acquisition are stated at fair value based on estimates of fair value using available information and making assumptions our management believes are reasonable. The following table summarizes the purchase price allocated to the net tangible and intangible assets acquired and liabilities assumed (in thousands):

Assets Acquired		
Cash and cash equivalents	$	1,436
Trade receivables	8,351	
Inventories	11,222	
Prepaid expenses and other assets	1,275	
Income tax refund receivables	165	
Property and equipment	2,319	
Deferred income tax assets	202	
Intangibles		
Developed technology	2,200	
Customer lists	1,500	
Trademarks	900	

Total assets acquired	29,570
Liabilities Assumed	
Trade payables	(2,414)
Accrued expenses	(5,083)
Deferred income tax liabilities	(934)
Total liabilities assumed	(8,431)
Total net assets acquired	**21,139**
Gain on bargain purchase (1)	(11,039)
Total purchase price	**$ 10,100**

(1) The total fair value of the net assets acquired from Argon exceeded the purchase price, resulting in a gain on bargain purchase which was recorded within other income (expense) in our consolidated statements of income. We believe the reason for the gain on bargain purchase was a result of the divestiture of a non-strategic, slow-growth critical care business for Argon. It is our understanding that the divestiture allows Argon to focus on its higher growth interventional portfolio. A reduction of $1.2 million was recorded since the bargain purchase gain was first presented in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2017, resulting from our ongoing activities, including reassessment of the assets acquired and liabilities assumed. The purchase price allocation for this acquisition is now final.

With respect to the Argon critical care assets, we are amortizing developed technology over seven years and customer lists on an accelerated basis over five years. While U.S. trademarks can be renewed indefinitely, we estimate that we will generate cash flow from the acquired trademarks for a period of five years from the acquisition date. The total weighted-average amortization period for these acquired intangible assets is approximately 6.0 years.

Table of Contents

On January 31, 2017, we acquired substantially all the assets, including intellectual property covered by approximately 40 patents and pending applications, and assumed certain liabilities, of Catheter Connections, Inc. ("Catheter Connections"), in exchange for payment of $38.0 million. Catheter Connections, based in Salt Lake City, Utah, developed and marketed the DualCap® System, an innovative family of disinfecting products designed to protect patients from intravenous infections resulting from infusion therapy. We accounted for this acquisition as a business combination.

Acquisition-related costs associated with the Catheter Connections acquisition during the year ended December 31, 2017, which were included in selling, general and administrative expenses were approximately $482,000. The results of operations related to this acquisition have been included in our cardiovascular operating segment since the acquisition date. During the three and nine months ended September 30, 2018, our net sales of the products acquired from Catheter Connections were approximately $3.7 million and $10.1 million, respectively. It is not practical to separately report the earnings related to the products acquired from Catheter Connections, as we cannot split out sales costs related solely to those products, principally because our sales representatives sell multiple products (including the DualCap System) in the cardiovascular business segment. The purchase price was allocated as follows (in thousands):

Assets Acquired		
Trade receivables	$	958
Inventories	2,157	
Prepaid expenses and other assets	85	
Property and equipment	1,472	
Intangibles		
Developed technology	21,100	
Customer lists	700	
Trademarks	2,900	
Goodwill	8,989	
Total assets acquired	38,361	
Liabilities Assumed		
Trade payables	(338)	
Accrued expenses	(23)	
Total liabilities assumed	(361)	
Total net assets acquired	**$**	**38,000**

We are amortizing the Catheter Connections developed technology asset over 12 years, the related trademarks over ten years, and the associated customer list on an accelerated basis over eight years. We have estimated the weighted average life of the intangible Catheter Connections assets acquired to be approximately 11.7 years.

The following table summarizes our consolidated results of operations for the nine-month period ended September 30, 2017, as well as unaudited pro forma consolidated results of operations as though the acquisition of the Argon critical care division had occurred on January 1, 2016 (in thousands, except per common share amounts):

	Nine Months Ended September 30, 2017			
	As Reported		**Pro Forma**	
Net sales	$	536,955	$	539,715
Net income	20,717		10,039	
Earnings per common share:				
Basic	$	0.43	$	0.21
Diluted	$	0.42	$	0.20

* The pro forma results for the three-month periods ended September 30, 2018 and 2017 and the nine-month period ended September 30, 2018 are not included in the table above because the operating results for the Argon critical care division acquisition were included in our consolidated statements of income for these periods.

15

Table of Contents

The unaudited pro forma information set forth above is for informational purposes only and includes adjustments related to the step-up of acquired inventories, amortization expense of acquired intangible assets, interest expense on long-term debt and changes in the timing of the recognition of the gain on bargain purchase. The pro forma information should not be considered indicative of actual results that would have been achieved if the acquisition of the Argon critical care division had occurred on January 1, 2016, or results that may be obtained in any future period. The pro forma consolidated results of operations do not include the acquisition of assets from BD because it was deemed impracticable to obtain information to determine net income associated with the acquired product lines which represent a small product line of a large, consolidated company without standalone financial information. The pro forma consolidated results of operations do not include the DirectACCESS, ITL, Laurane, Osseon, VAT or Catheter Connections acquisitions as we do not deem the pro forma effect of these transactions to be material.

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

6. Revenue from Contracts with Customers.

We sell our medical products through a direct sales force in the U.S. and through OEM relationships, custom procedure tray manufacturers and a combination of direct sales force and independent distributors in international markets. Revenue is recognized when a customer obtains control of promised goods based on the consideration we expect to receive in exchange for these goods. This core principle is achieved through the following steps:

Identify the contract with the customer. A contract with a customer exists when (i) we enter into an enforceable contract with a customer that defines each party’s rights regarding the goods to be transferred and identifies the payment terms related to these goods, (ii) the contract has commercial substance and, (iii) we determine that collection of substantially all consideration for services that are transferred is probable based on the customer’s intent and ability to pay the promised consideration. We do not have significant costs to obtain contracts with customers. For commissions on product sales, we have elected the practical expedient to expense the costs as incurred if the amortization period would have been one year or less.

Identify the performance obligations in the contract. Generally, our contracts with customers do not include multiple performance obligations to be completed over a period of time. Our performance obligations generally relate to delivering single-use medical products to a customer, subject to the shipping terms of the contract. Limited warranties are provided, under which we typically accept returns and provide either replacement parts or refunds. We do not have significant returns. We do not typically offer extended warranty or service plans.

Determine the transaction price. Payment by the customer is due under customary fixed payment terms, and we evaluate if collectability is reasonably assured. None of our contracts as of September 30, 2018 contained a significant financing component. Revenue is recorded at the net sales price, which includes estimates of variable consideration such as product returns, rebates, discounts, and other adjustments. The estimates of variable consideration are based on historical payment experience, historical and projected sales data, and current contract terms. Variable consideration is included in revenue only to the extent that it is probable that a significant reversal of the revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Taxes collected from customers relating to product sales and remitted to governmental authorities are excluded from revenues.

Allocate the transaction price to performance obligations in the contract. We typically do not have multiple performance obligations in our contracts with customers. As such, we recognize revenue upon transfer of the product to the customer's control at contractually stated pricing.

Recognize revenue when or as we satisfy a performance obligation. We satisfy performance obligations at a point in time upon either shipment or delivery of goods, in accordance with the terms of each contract with the customer. We do not have significant service revenue.

Disaggregation of Revenue

The disaggregation of revenue is based on type of product and geographical region. For descriptions of our product offerings and segments, see Note 12 in our 2017 Form 10-K.

Table of Contents

The following tables present revenue from contracts with customers for the three and nine-month periods ended September 30, 2018 and 2017 (in thousands):

	Three Months Ended September 30, 2018					Three Months Ended September 30, 2017
	United States	International	Total	United States	International	Total
Cardiovascular						
Stand-alone devices	$ 52,173	$ 38,802	$ 90,975	$ 36,383	$ 32,366	$ 68,749
Custom kits and procedure trays	23,199	9,896	33,095	23,085	7,326	30,411
Inflation devices	7,819	15,074	22,893	8,241	11,792	20,033
Catheters	18,081	22,510	40,591	15,377	16,374	31,751
Embolization devices	5,145	7,250	12,395	5,414	6,838	12,252
CRM/EP	10,462	1,739	12,201	8,202	1,325	9,527
Total	116,879	95,271	212,150	96,702	76,021	172,723
Endoscopy						
Endoscopy devices	9,229	280	9,509	6,389	225	6,614
Total	$ 126,108	$ 95,551	$ 221,659	$ 103,091	$ 76,246	$ 179,337

	Nine Months Ended September 30, 2018					Nine Months Ended September 30, 2017
	United States	International	Total	United States	International	Total
Cardiovascular						
Stand-alone devices	$ 147,125	$ 119,592	$ 266,717	$ 109,750	$ 93,709	$ 203,459
Custom kits and procedure trays	69,184	31,175	100,359	68,823	22,259	91,082
Inflation devices	23,647	45,970	69,617	24,257	35,072	59,329
Catheters						