1992

ANNUAL REPORT

SCIMED'S MISSION IS TO CREATE LONG-TERM GROWTH AND VALUE FOR ITS CUSTOMERS, EMPLOYEES AND SHAREHOLDERS BY BEING A LEADING PROVIDER OF INNOVATIVE, HIGH-QUALITY PRODUCTS USED IN THE EFFECTIVE NON-SURGICAL TREATMENT OF VASCULAR DISEASE.

AS WE STRIVE FOR EXCELLENCE, WE WILL ACT ETHICALLY IN EVERYTHING WE DO. WE WILL RESPECT AND PROVIDE OPPORTUNITIES FOR OUR EMPLOYEES. MOST IMPORTANTLY, WE WILL STRIVE TO IMPROVE THE HEALTH AND QUALITY OF LIFE FOR PEOPLE WORLDWIDE, AND TO CONTAIN RISING HEALTHCARE COSTS BY FOCUSING ON IMPROVED PATIENT CARE AT A LOWER TOTAL COST.

PEOPLE'S LIVES DEPEND UPON OUR PRODUCTS. PRODUCT QUALITY AND RELIABILITY ARE THE RESPONSIBILITIES OF EVERY EMPLOYEE AND MUST NEVER BE COMPROMISED. WE DEFINE QUALITY AS EXCEEDING THE EXPECTATIONS OF THOSE WHO USE OR BENEFIT FROM OUR PRODUCTS.

ADHERING TO THESE PRINCIPLES WILL RESULT IN LONG-TERM PROFITABLE GROWTH AND OTHER DESIRABLE RESULTS FOR OUR CUSTOMERS, EMPLOYEES AND SHAREHOLDERS.

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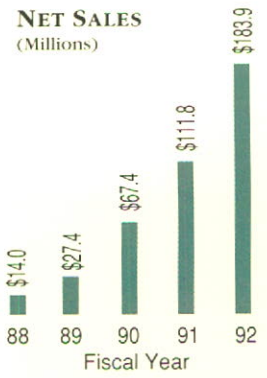
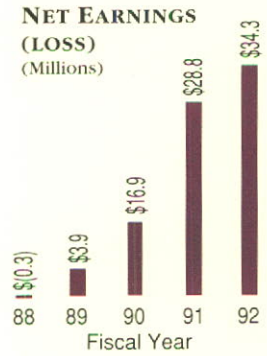
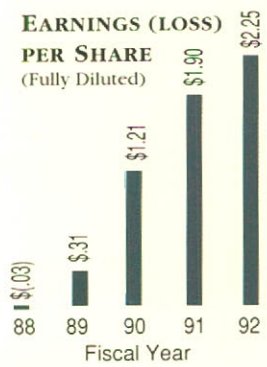
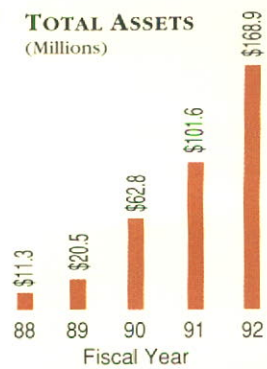
Consolidated Financial Highlights









	Fiscal Year Ending February 29 (28)		
	1992	1991	% Increase
OPERATING RESULTS			
Net sales	$ 183,892,000	$ 111,779,000	65%
Gross profit	148,544,000	82,682,000	80%
Operating profit	48,084,000	42,382,000	13%
Net earnings	34,338,000	28,755,000	19%
Earnings per share (fully diluted)	2.25	1.90	18%
INVESTMENTS			
Capital expenditures	$ 8,774,000	$ 5,948,000	48%
Research and development	11,353,000	5,752,000	97%
BALANCE SHEET			
Cash and cash equivalents	$ 71,464,000	$ 55,016,000	30%
Total assets	168,895,000	101,574,000	66%
Shareholders' equity	127,667,000	87,345,000	46%

Standing - Lawrence L. Horsch, Chairman of the Board
Seated - Dale A. Spencer, President and CEO

Fiscal 1992 was a year of continued strong growth and increased global acceptance of SCIMED products, evidenced by the launching of innovative new products, an increased technology base, and expanded sales efforts worldwide. Today, SCIMED is recognized as a global leader in the coronary angioplasty catheter industry, an enviable position achieved by providing superior, high-quality products and service to satisfy customer needs.

For the fourth consecutive year, sales, net income and earnings per share grew to record levels. This progress is a direct result of strategies put in place nearly eight years ago and sets the stage for SCIMED's continued growth.

ACCOMPLISHMENTS

The following are some of the more noteworthy accomplishments of the past year:

- Sales reached a record $183,892,000, an increase of 65% over last year.
- Earnings reached a record $34,338,000, or $2.25 per fully diluted share.
- International sales of angioplasty products were $32,060,000 in fiscal 1992, an increase of 116% over the prior year and more than three times the level two years ago.
- We received FDA approval to market two new coronary angioplasty catheters — *MIRAGE* and *COBRA 14*; and three new ancillary products — *TRAPPER*, *8F INTERMEDIATE* , an addition to our growing family of *TRIGUIDE* guide catheters, and the *ENCORE* inflation device.
- We ended the year in a strengthened financial position, with cash balances of $71,464,000 and virtually no debt.
- We increased sales and marketing personnel worldwide to strengthen SCIMED's position in the marketplace.
- We increased our share of the U.S. and worldwide markets for PTCA balloon catheters.
- We formed a new business unit, SCIMED Peripheral Interventions (SPI), to serve the needs of the small but expanding market for products to treat peripheral vascular disease.
- The November 1991 settlement with Eli Lilly® resolved long-standing, complex, expensive and time-consuming patent litigation, and strives to avoid further costly and disruptive patent litigation in the future.
- The June 1991 sale of the Surgical Products Division allows us to focus more intensely on non-surgical therapies to treat cardiovascular disease.

The achievements of this past year are a tribute to all SCIMED employees. Their skills, energy and dedication have made possible a steady stream of innovative, quality products which have assisted cardiovascular specialists in providing effective treatment of life-threatening cardiovascular disease worldwide.

SCIMED has successfully met the challenges of competing in this customer-driven, technology-intensive industry. Approximately 65% of SCIMED's fiscal 1992 sales came from products introduced within the past two years.

Recognizing that our future depends on a continuous stream of innovative new products, our commitment to research and development is stronger than ever before. In fiscal 1992, we increased research and development

OUR CONFIDENCE IN THE FUTURE IS BASED ON THE EXCEPTIONAL SKILLS, ENERGY AND DEDICATION OF OUR EMPLOYEES WHO STRIVE TO BE THE VERY BEST EVERY DAY

investments by 97% to $11,353,000, or 6.2% of sales. Long-term, we expect research and development investments to reach 8 to 10% of sales, as we continue to recruit high-caliber engineers, scientists and other technical personnel to expand our efforts in this area. In fiscal 1992, SCIMED also invested $8,774,000 in capital projects, including expanded production and research and development facilities, a 48% increase over the previous year.

THE FUTURE

SCIMED's products have attained market leadership and helped position us for significant future growth. Our strategy is to focus on the high technology cardiovascular device market and leverage our technology base in order to develop products based on physician preferences. In our pursuit to satisfy the clinical needs of our customers, we also constantly maintain our perspective of the worldwide need to control escalating healthcare costs.

We are pursuing our product goals with a two-pronged approach: first, with a strong and expanding commitment to internal development efforts; and second, by actively seeking external opportunities to form mutually beneficial strategic alliances. We are convinced this approach is important to our long-term success in this fast-paced, technology-driven market which we believe presents opportunities for above average growth and margins.

FISCAL 1993 PRIORITIES

- In fiscal 1993, we will strive to expand our share of the worldwide angioplasty device market.
- Our belief in the future is underscored by our commitment to research and development. We will therefore continue the recent trend of significant increases in this area. We expect to invest at least 50% more than we did in fiscal 1992. This is more than ten times what was spent just three years ago.
- We anticipate introducing several new products during the coming year, including new PTCA catheters as well as an expanded line of ancillary products. Our goal is to become a full-line supplier of disposable products for angioplasty procedures.
- We also plan to enter the peripheral angioplasty market during fiscal 1993 with our first products from SCIMED Peripheral Interventions.
- We expect to begin overseas production and introduce new products to better serve the European market and to lower our royalty payments.
- Our highest priority has been, and will continue to be, to provide innovative and useful products that contribute to safer, faster and/or easier procedures, better patient outcomes and lower total healthcare costs.

IN CONCLUSION

As we look ahead, the challenges and opportunities are both significant. However, on balance we are in an excellent position to strengthen our worldwide leadership in the minimally invasive cardiovascular device market.

In reflecting on our progress over the past few years, the one constant has been our focus on serving our customers better than anyone.

WE ARE IN AN EXCELLENT POSITION TO STRENGTHEN OUR WORLDWIDE LEADERSHIP IN THE MINIMALLY INVASIVE CARDIOVASCULAR DEVICE MARKET

That is why this year's annual report focuses on SCIMED's customers and our determination to excel in meeting their needs.

I believe that the future will continue to be dynamic and provide substantial opportunities for SCIMED, its customers, employees and shareholders. We expect to take advantage of those opportunities by leveraging our strengths, which include the ability to develop new products quickly, expand key core technologies, focus on quality, grow worldwide sales and distribution capabilities, and maintain a strong presence in the interventional cardiology market and a strong financial position.

Most importantly, our confidence in the future is based on the exceptional skills, energy and dedication of our employees who strive to be the very best every day. SCIMED's success and its future prospects are a tribute to their team efforts. This team is our most valuable asset. We must continue to provide our employees with an inspiring environment where initiative and results are recognized and rewarded.

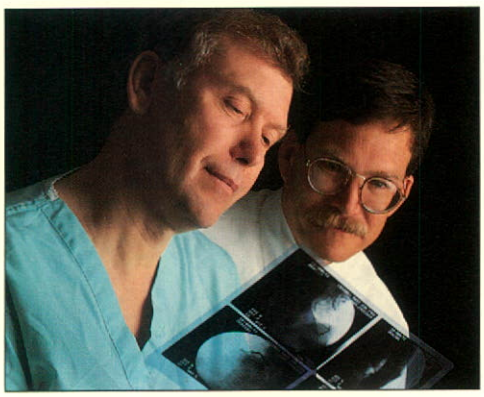
Dale A. Spencer
President and CEO
April 20, 1992

Gary S. Roubin, M.D., Associate Professor of Medicine, Dir. of Interventional Cardiology and Adult Cardiac Catheterization Laboratories; Michael Berman, Vice President of Marketing - Cardiology Division; Sew-Wah Tay, Ph. D., Senior Scientist

Our primary management objective is to build professional relationships with our customers. To accomplish this, we are committed to listening and responding proactively to their needs better than anyone.

We pursue every opportunity to involve physicians in the product-planning process, meeting with them regularly to solicit ideas, review new product concepts and discuss their potential impact on the clinical and economic issues facing cardiovascular healthcare specialists.

Since entering the domestic PTCA market in January 1987, SCIMED has introduced sixteen angioplasty products. Each was developed with



Jan Voda, M.D., F.A.C.C., Dir., Oklahoma City Angioplasty Foundation; William P. Kingston, Senior Product Manager

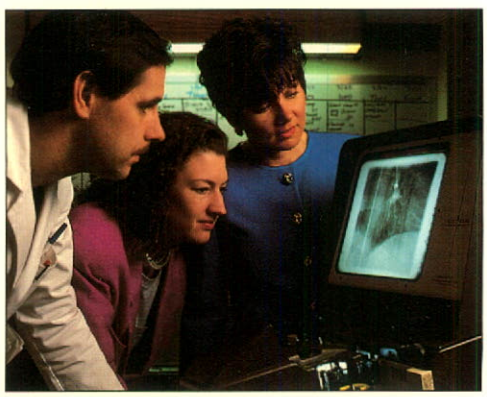
customer input and designed to be the optimal solution for specific clinical situations. Today, our high performance catheters — *SHADOW P-14*, *MIRAGE*, *COBRA 10* and *14*, *SKINNY*, *ACE* and *LONG ACE*, and *EXPRESS* — are all leaders in their respective market segments. This market leadership is a direct result of our commitment to deliver the highest quality products which address our customers' clinical needs.

In addition, SCIMED remains dedicated to serving the clinical educational needs of our customers. Each year we facilitate important educational meetings, symposiums and conferences throughout the United States,

Europe and Asia Pacific. The goal is to create a unique learning experience that encourages an exchange of ideas on issues of critical concern to the interventional cardiologist. This methodology has proven beneficial in assisting physicians in improving the clinical treatment of complex and routine PTCA cases, as well as assisting us in understanding their clinical requirements.

SCIMED also provides non-clinical education to physicians of various experience levels. Our intent is to assist in preparing them for medical practice and the delivery of effective, quality, cost-effective healthcare in a changing healthcare environment.

Overall, SCIMED's commitment to assist our customers in the more effective and efficient performance of their professional responsibilities is unsurpassed and remains the cornerstone of our strategy to develop a true partnership.



Andrew J. Doorey, M.D., F.A.C.C., Dir. of Angioplasty, Medical Center of Delaware; Associate Professor of Medicine (Cardiology), Jefferson Medical College of Thomas Jefferson University; Michelle M. Arney, R & D Engineer, Linda A. Compagnoni, Professional Services Manager

REDUCING THE RATE OF ESCALATING HEALTHCARE COSTS HAS BECOME AN IMPORTANT ISSUE WORLDWIDE. EVIDENCE SUGGESTS PTCA IS HAVING A POSITIVE IMPACT IN THIS AREA

Cardiovascular disease remains the leading cause of death in the industrialized world, contributing to over 11 million deaths annually. One in four Americans, nearly 70 million people, suffer from some form of the disease. Of this group, approximately six million Americans have clinically confirmed coronary artery disease afflicting the blood vessels of the heart.

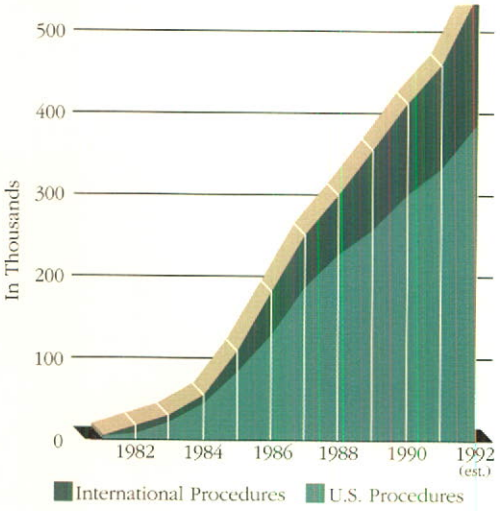
Since cardiovascular disease is an age-related condition, it is anticipated the aging populations of industrialized nations will drive demand for procedures which treat the disease. Statistics from the U.S. Census Bureau suggest that over the next ten years the group of Americans between the ages of 45 and 64 will increase by over 31%, while those over 65 will increase by 10%. Similar growth trends are expected throughout the industrialized world. It is this growth and increased public awareness, combined with improved diagnostics and therapeutic practices, that will continue to promote the need for medical devices designed to treat cardiovascular disease.

LESS INVASIVE, COST CONSCIOUS TREATMENT

The three most common forms of treatment for coronary artery disease are percutaneous transluminal coronary angioplasty (PTCA), coronary artery bypass graft surgery (CABG) and medical (drug) therapy. Among the three, PTCA has experienced the most dynamic growth over the last decade due to patients' and physicians' desire for earlier intervention and minimally invasive, less traumatic treatment, and for the potential positive effect of PTCA on the reduction of healthcare costs.

Reducing escalating healthcare costs has become an important issue worldwide. Evidence suggests PTCA is having a positive impact in this area. A recent Duke University Medical Center study found that the average overall charges for angioplasty were $9,556, or only 49% of the average overall charges of $19,644 for bypass surgery*.

Estimated PTCA Procedures



PTCA MARKET

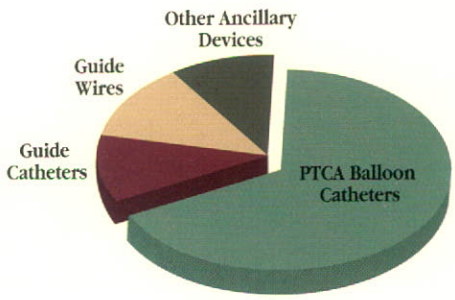
PTCA remains one of the most popular approaches for the treatment of coronary artery disease. In 1992, we believe approximately 540,000 PTCA procedures will be performed worldwide — 380,000 in the United States and 160,000 internationally.

We estimate the current worldwide market for coronary angioplasty devices is approximately $700 million. Dollar growth in the coronary angioplasty device market is expected to increase at a rate of 15 to 18%

* Duke University Medical Center and Institute of Policy Sciences and Public Affairs, Duke University, Durham, N.C., referenced in the November 1990 supplement to Circulation.

annually. By the mid-1990s, the worldwide value of this market is projected to exceed $1 billion annually, with the United States representing nearly two-thirds of the total.

Worldwide PTCA Market



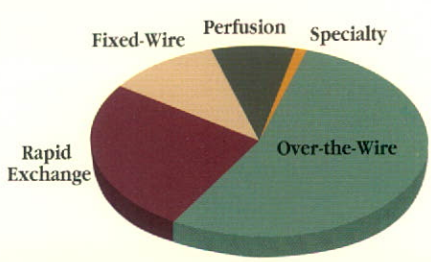
PTCA REMAINS ONE OF THE MOST POPULAR APPROACHES FOR THE TREATMENT OF CORONARY ARTERY DISEASE

PRODUCTS

PTCA catheters, or balloon catheters, represent approximately two-thirds of the total market for angioplasty products, with the remaining one-third in ancillary products which include guide catheters, guide wires and inflation devices.

The balloon market is divided into five primary segments: over-the-wire, rapid exchange, fixed-wire, perfusion and specialty catheters. Over-the-wire and rapid exchange comprise over three-quarters of the U.S. balloon catheter market.

U.S. Balloon Catheter Market



New technologies, such as atherectomy and laser devices, recently have been introduced into the market. While gaining acceptance for use on certain categories of patients, balloon catheters remain the most widely used angioplasty devices. Although non-balloon catheter devices may be used as a stand-alone therapy in a limited number of clinical situations, we believe in most instances the interventional cardiologist will use new technology devices in conjunction with balloon catheters.

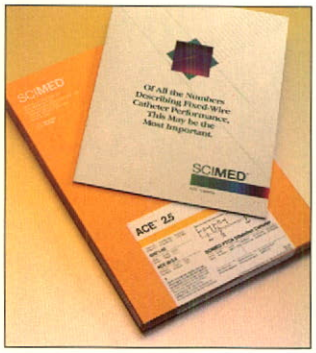
The future role of newer technologies is unclear. However, experience to date suggests that when used in conjunction with conventional balloons, they will play a valuable role in expanding the indications for new non-surgical treatment of coronary artery disease. Regardless, the combined effect of stand-alone and adjunctive usage of balloon catheters is likely to contribute to a double-digit worldwide growth rate for balloon angioplasty products for the foreseeable future.

PERIPHERAL VASCULAR DISEASE

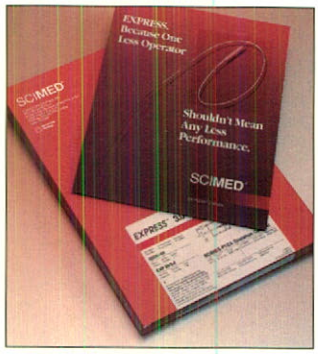
Advances in technology and clinical research are expected to have a positive impact on the percutaneous transluminal angioplasty (PTA) market. The worldwide market for interventional peripheral devices, designed to treat peripheral vascular disease affecting the legs and kidneys, is estimated to be greater than $100 million.

LEADING SCIMED PRODUCTS CURRENTLY IN THE MARKETPLACE

SKINNY Catheter

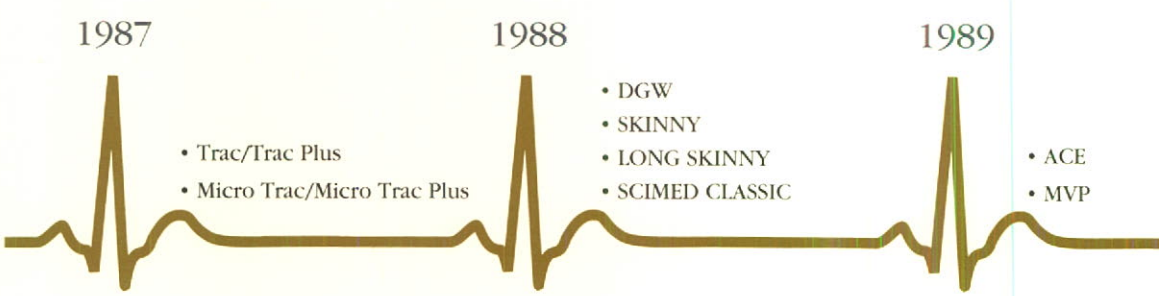


ACE Catheter



EXPRESS Catheter

PRODUCT INTRODUCTIONS BY CALENDAR YEAR



The most important product of those making up the angioplasty market today, is the balloon, or percutaneous transluminal coronary angioplasty (PTCA) catheter. It represents about two-thirds of the cost of disposable products. Three types of balloon catheters are most commonly used. Over-the-wire catheters ride over an independent guide wire to the site of the obstruction. Fixed-wire catheters combine the balloon and guide wire into one integral unit. Rapid exchange catheters are over-the-wire catheters that can be exchanged without the use of an extension wire, which is required when using a standard over-the-wire catheter.

Among the more important ancillary products are guide catheters, guide wires, and inflation devices. Guide catheters are the conduit through which a balloon catheter gains access to the coronary arteries. Guide wires are steerable devices over which the balloon catheter is guided by the cardiologist to reach the site of an obstruction. Inflation devices precisely control the inflation and deflation of the dilatation balloon.

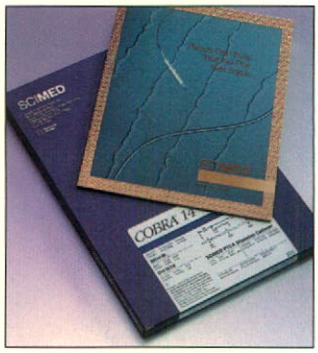
SCIMED's first angioplasty catheters, the *TRAC* and *TRAC PLUS* were introduced in 1987 and were soon followed by the *MICRO TRAC/MICRO TRAC PLUS* series. These catheters contained SCIMED's proprietary polyolefin copolymer (POC) predictably compliant balloon material.

SCIMED's first major impact on the PTCA market came in 1988 with the introduction of *SKINNY*, the first low-profile, thin-shaft, over-the-wire catheter on the market. The *SKINNY* was SCIMED's best selling product in fiscal 1991. *LONG SKINNY*, the first thin-shafted, low-profile, long balloon, and SCIMED's first ancillary product, the *INFLATION DEVICE* (renamed *CLASSIC*), were also introduced.

In 1989, SCIMED's reputation for innovation was enhanced with the release of the *ACE*, with its unique unibody core wire construction. The *MVP* was also introduced in 1989.

TRIGUIDE Guiding Catheters

SHADOW Catheter



COBRA Catheter

1990

- F-14
- Shadow P-14
- 8F TRIGUIDE Standard
- *XTRA*

1991

- EXPRESS
- LONG ACE
- 7F TRIGUIDE-LITE
- Encore

1992

- COBRA 10
- COBRA 14
- Mirage P-18
- 8F TRIGUIDE Intermediate
- TRAPPER

SCIMED's second major impact on the PTCA balloon market came with the successful November 1990 introduction of *SHADOW P-14*, a new generation of over-the-wire catheters with enhanced performance due to *SCILENE*, a proprietary high-density polymer blended shaft material. The *SHADOW* was SCIMED's top seller in fiscal 1992. *TRIGUIDE*, SCIMED's first guide catheter, and *XTRA*, SCIMED's lubricious catheter coating for improved endovascular movement, were also introduced in 1990.

At the American College of Cardiology Annual Scientific Session in early 1991, SCIMED launched its first rapid exchange catheter, *EXPRESS*, which received immediate broad acceptance. *ENCORE* was added to the inflation device family in October 1991.

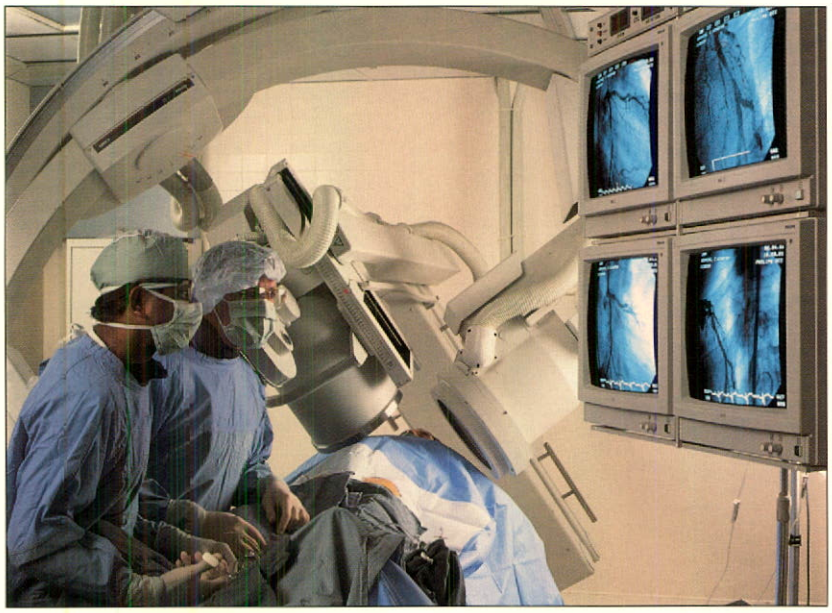
An established leader in the angioplasty industry, SCIMED originated the concept of system miniaturization. *PTCA LITE*, introduced in 1991, uses a system of smaller guide catheters with smaller-shafted balloon catheters that work in synergy to maximize performance. The *7F TRIGUIDE LITE*, introduced in April 1991, is an element of the *PTCA LITE* system, combining the advantages of a smaller 7F shaft size with the performance of a larger 8F guide catheter.

In January 1992, SCIMED introduced *TRAPPER*, an innovative exchange device which allows for balloon catheter exchanges without the use of an extension wire or cumbersome exchange wire. *MIRAGE*, an all-wire, over-the-wire catheter, and *8F TRIGUIDE INTERMEDIATE*, which complements the *TRIGUIDE* family of guide catheters were also introduced in January 1992.

Useful innovation, speed to market, quality and product performance are prerequisites for maintaining and gaining market share. This philosophy remains a cornerstone of the Company's approach to business. SCIMED is a proven product leader committed and poised to continue setting new performance standards through creative designs and development of proprietary materials and technology which benefit both physicians and patients.

PTCA PROCEDURE

Coronary artery disease (CAD) is a progressive condition in which fatty deposits, called plaque, accumulate on the inside walls of arteries supplying blood to the heart. When these arteries become blocked, blood cannot reach the heart muscle. This often results in chest pain and can lead to a heart attack.



Dr. Gary S. Roubin, assisted by Dr. Sriram Iyer, performing a PTCA procedure at the University of Alabama at Birmingham

Percutaneous transluminal coronary angioplasty (PTCA) offers distinct advantages over other accepted methods of treatment for CAD: medical (drug) therapy, and coronary artery bypass graft surgery (CABG). Medical therapy can be effective, but it only relieves the symptoms and can produce unwanted side effects with long-term use. Bypass surgery improves blood flow by creating new channels around obstructed arteries. However, it is a more involved and traumatic procedure than PTCA or medical therapy.

PTCA, a non-surgical procedure, is a minimally invasive treatment which is less traumatic and requires a shorter hospital stay — typically 2 to 3 days versus 10 to 12 for bypass surgery. General anesthesia is not required as it is with bypass surgery, and the patient can resume a normal life-style within days. PTCA is also often more cost-effective.

PTCA is performed in the cardiac catheterization laboratory by a highly skilled interventional cardiology specialist. The patient is given a sedative which promotes relaxation and a local anesthetic is injected under the skin at the site where the PTCA catheters will be inserted. The patient remains conscious during the entire procedure.

The right femoral artery, located near the right groin, generally is selected as the insertion site. Once the area is anesthetized a sheath is introduced into the artery and serves as the point of entry for the guide catheter. The guide catheter is inserted through the sheath into the femoral artery, up through the aorta, and placed in the opening of the coronary artery which is to be dilated. The guide catheter acts as a conduit for the guide wire, the balloon catheter, and radiopaque dye which is used for visualization during the procedure.

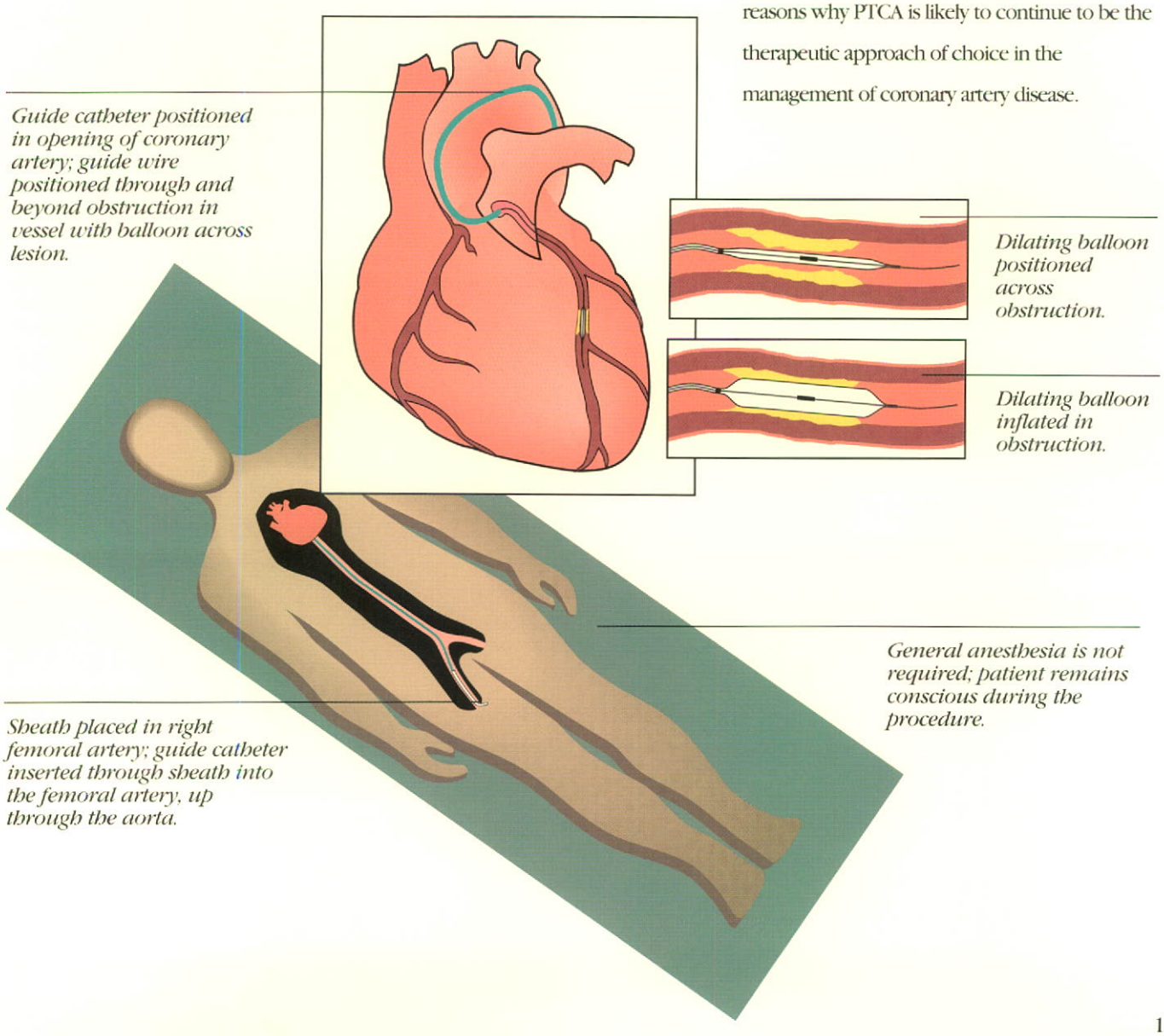
The cardiologist injects the dye into the artery to identify the exact location of the disease. A guide wire is then passed through the guide catheter and directed into the vessel, through and beyond the obstruction. Next, a balloon catheter is threaded over the guide wire until the

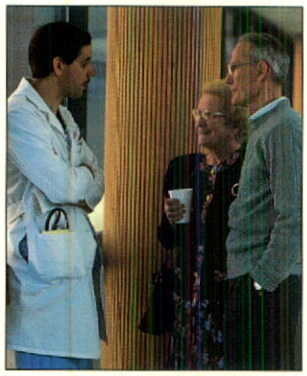
dilating balloon is positioned across the obstruction. The balloon is inflated and pressure is applied to the obstruction. The obstruction is essentially remolded and the vessel opened.

Generally, a balloon is inflated for a duration of 30 seconds to a few minutes. Several balloon inflations may be required for optimal results. A PTCA procedure takes approximately 1 to 2 hours, depending on the severity and number of obstructions.

Following the procedure, the patient is closely observed in an intensive care unit. After the sheath is removed the patient remains flat for 6 to 8 hours to prevent bleeding complications. The following day, the patient is released from the hospital and typically can resume a normal life-style, including returning to work.

PTCA has an outstanding success rate. In addition, the more extreme and costly alternative of coronary artery bypass surgery can be avoided. These advantages underscore the reasons why PTCA is likely to continue to be the therapeutic approach of choice in the management of coronary artery disease.





Dr. Andrew J. Doorey of Jefferson Medical College, Thomas Jefferson University, with his patient Monica Sullivan and her husband

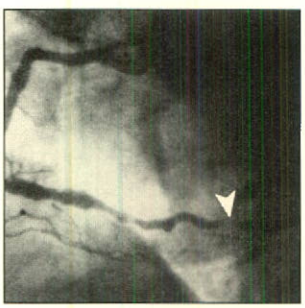


Fig. 1 *View of RCA prior to angioplasty. Arrow indicates 90% bifurcation occlusion*

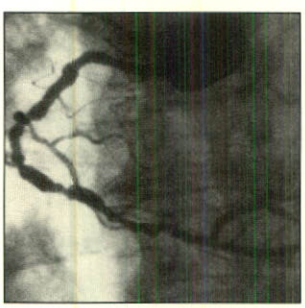


Fig. 2 *Results after dilatation. Occlusion reduced from 90% to 10%*

MEDICAL HISTORY AND DIAGNOSIS

Monica Sullivan, a 58-year-old mother of five, suffered a heart attack. Her angiography (an X-ray photograph of blood vessels filled with dye) confirmed that an obstruction was blocking 90% of her right coronary artery (RCA) where it branched into two smaller blood vessels, interrupting the blood flow to the lower portion of her heart. (Figure 1)

Three treatments were available to Mrs. Sullivan: medical (drug) therapy, coronary artery bypass graft surgery or balloon angioplasty. Medical therapy was dismissed given the potential high risk for a repeat, life-threatening heart attack. Bypass surgery was avoided because of increased risk associated with her recent heart attack. In addition, surgery would yield less than satisfactory results since only one of her two obstructed vessels could be successfully bypassed. Angioplasty presented the highest potential for success.

THE PROCEDURE

A branched lesion is one of the most difficult angioplasty procedures to perform. The concern is that while opening one vessel the other may become totally obstructed. It is beneficial to have two balloon catheters in position, one across each branch of the lesion, prior to inflation of the first balloon.

Step one was to place a very small diameter *7F TRIGUIDE-LITE* guide catheter at the opening of the right coronary artery. A guide wire was passed through the guide catheter, down the artery, and positioned in one of the vessel branches beyond the obstructed area. A SCIMED *ACE* balloon catheter was advanced down the artery and positioned across the occlusion in the remaining branch. Next, a SCIMED *EXPRESS* balloon catheter was threaded over the guide wire and advanced across the occlusion.

With both balloons in place, the *EXPRESS* was inflated while the *ACE* remained deflated. Finally, the *EXPRESS* was deflated and the *ACE* inflated.

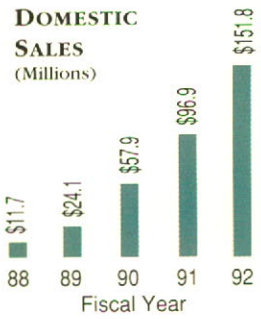
RESULTS

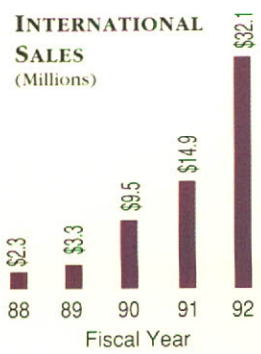
Today, Mrs. Sullivan leads a happy, normal life. The procedure, which took only 40 minutes, yielded excellent results reducing the vessel obstruction from 90% to 10% in each of the branch vessels. (Figure 2)

DR. DOOREY'S COMMENTS

"Dilatation of a complex branched lesion such as Mrs. Sullivan's would not have been possible two years ago. Mrs. Sullivan's procedure was particularly challenging due to her relatively small coronary arteries. I chose SCIMED's *7F TRIGUIDE-LITE* because its small diameter allowed adequate blood flow to pass around it into the small right coronary artery. Because I intended to place a balloon catheter across each of the vessel branches involved, the challenge was finding two balloon catheters thin enough to fit side-by-side, without blocking the view into the vessel, and still be easily manipulated within the small guide catheter. The shafts of the *EXPRESS* and *ACE* accomplished this and fit well within the *7F TRIGUIDE-LITE*, which although thin enough to fit in a narrow artery opening, had enough luminal, or interior space, to accommodate two balloon catheters. Two years ago I would have had to use two 7F guides, and using dual guides is extremely difficult.

"Most of us (physicians) with experience have been amazed at the disproportionate number of innovations made in this field by SCIMED."





When SCIMED made the strategic decision to enter the coronary angioplasty business in 1983 the market was roughly $70 million, or 10% its present size of approximately $700 million. Since that time, SCIMED has established itself as a global leader within the interventional cardiology medical community by providing numerous useful and innovative angioplasty products for the worldwide angioplasty market.

SCIMED is one of only a few fully integrated companies in the PTCA catheter business, with one of the broadest balloon catheter product lines and a significant market share worldwide. The company employs approximately 1,200 dedicated employees with diverse strengths, experience and technical skills. SCIMED's domestic direct sales force has grown from seven in 1987 to more than 125 by the end of fiscal year 1992.

Having become one of the world's premier cardiovascular device companies, our focus is to maintain this leadership position. We will accomplish this by aggressively pursuing opportunities in worldwide markets with above-average sales growth and margin potential.

While it will be impossible for SCIMED to sustain its recent impressive annual growth rate, we believe substantial growth opportunities continue to exist. Considerable growth potential will come from international markets. Our plans to establish a European manufacturing facility later this year will help us to better address the demands of the growing European angioplasty market.

In addition, SCIMED is developing additional ancillary products which will support and complement SCIMED's strong balloon catheter business. SCIMED has already made inroads into this area with its development of two inflation devices, a growing family of *TRIGUIDE* guide catheters and its *TRAPPER* exchange device. We anticipate this product group will provide the Company with excellent opportunities for future growth.

SCIMED Peripheral Interventions (SPI) marks our entrance into the market for minimally invasive systems to treat peripheral vascular disease.

We will continue to pursue products and technologies that offer better value for interventional cardiologists and radiologists, patients and hospitals by providing better clinical outcomes, enhancing safety, decreasing procedure times and offering the potential for increasingly favorable economics.

Finally, SCIMED will continue to strengthen its core competencies in product development and manufacturing, state-of-the-art catheter technology, market position, and skillful, dedicated personnel in order to achieve our future goals.

SCIMED CONTINUES TO BE RECOGNIZED IN BUSINESS JOURNALS AND BY ASSOCIATIONS AS AN INDUSTRY LEADER

BUSINESS WEEK
U.S. Most Valuable Companies
No. 599, 1992

U.S. Most Valuable Companies
No. 712, 1991

Hot Growth Companies
Annual rank of 100 best small corporations
No. 7, May 27, 1991

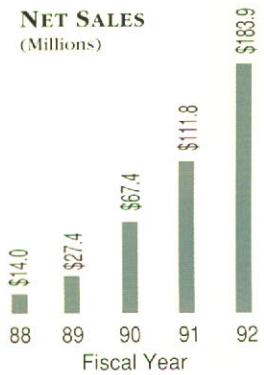
MEDICAL ALLEY ASSOCIATION
(Association for the healthcare industry in Minnesota)
Outstanding Achievement Award
1989-1990

FORTUNE
America's Top 100 Growing Companies
No. 42, October 7, 1991

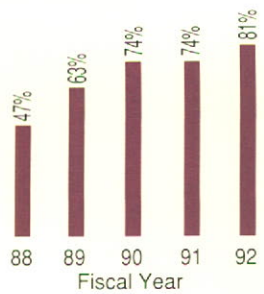
THE INC. 100
America's Fastest-Growing Small Public Companies
No. 96, May 1992

America's Fastest-Growing Small Public Companies
No. 49, May 1981

NET SALES
(Millions)



GROSS PROFIT



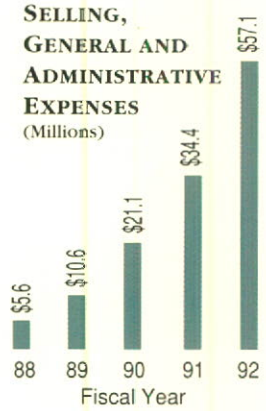
RESULTS OF OPERATIONS

The following table shows for the periods indicated the percentage relationship to net sales of items in the Consolidated Statements of Earnings and the percentage changes in the dollar amounts of such items from year to year.

	Percent of Net Sales *Year Ended February 29 (28)*			Percent Increase 1992 Compared to 1991	Percent Increase 1991 Compared to 1990
	1992	1991	1990		
Net Sales	100.0%	100.0%	100.0%	65%	66%
Cost of Sales	19.2	26.1	26.2	21	65
Gross Profit	80.8	73.9	73.8	80	66
Operating Expenses:					
Selling, General & Administrative	31.1	30.8	31.3	66	63
Royalties	2.2	.1	–	NM	–
Research & Development	6.2	5.1	4.9	97	75
Litigation Settlement	15.2	–	–	–	–
Operating Profit	26.1	37.9	37.6	13	67
Other Income, net	2.1	3.0	1.3	15	284
Earnings Before Income Taxes	28.2	40.9	38.9	14	75
Income Taxes	9.5	15.2	13.9	4	82
Net Earnings	18.7%	25.7%	25.0%	19%	71%

Net Sales. Net sales of $183,892,000 for the year ended February 29, 1992, were 65% higher than 1991. The worldwide market for angioplasty products has grown significantly over the past several years. Although continued growth of this market is expected, the rate of growth is likely to decrease. The worldwide angioplasty market is also very competitive and dynamic, and sales increases are highly dependent upon new product introductions. Approximately 65% of the Company's fiscal 1992 sales came from products introduced within the past two years. In November 1990, the *SHADOW P-14* over-the-wire catheter was introduced, which became the Company's largest selling product in fiscal 1992. The Company also entered two new market segments with its introduction of the *EXPRESS* rapid exchange catheter and the family of *TRIGUIDE* guide catheters. The *EXPRESS* was the Company's fastest growing product and second largest selling product in fiscal 1992. The *EXPRESS* is manufactured in the United States under a limited license which will expire on November 30, 1993. The Company has a replacement product in development, but there can be no assurance that this product will be commercialized and, if it is commercialized, that it will be as successful as the *EXPRESS*. In addition, the *EXPRESS* is the subject of patent litigation with a subsidiary of Pfizer Inc. (See Note I of Notes to Consolidated Financial Statements). International sales increased 116% in fiscal 1992 due to new product introductions and increased marketing efforts. The Company implements price increases periodically, which accounted for approximately 7% of sales growth for fiscal 1992 and approximately 12% of sales growth for fiscal 1991. Net sales for fiscal 1991 increased 66% over 1990 due to new product introductions, as well as strong sales of established product lines. In addition, product recalls in the United States by a principal competitor increased demand for the Company's products.

Cost of Sales. Cost of sales as a percentage of net sales decreased in fiscal 1992, partially the result of lower unit costs associated with higher production volumes and improved labor efficiencies for cardiology products. In addition, fiscal 1992 cost of sales was favorably impacted by the sale of the Company's former Surgical Division in June 1991 (See Note N of Notes to Consolidated Financial Statements). The Surgical Division sold membrane oxygenators and other perfusion products used during coronary artery bypass graft surgery and generally recorded cost of sales percentages more than twice that of cardiology products. Cost of sales percentages for fiscal 1991 and fiscal 1990 were consistent at just over 26% of net sales.



Cost of sales is expected to increase in fiscal 1993 due to amortization of certain license fee payments connected with the settlement of patent-related litigation with Advanced Cardiovascular Systems, Inc. (ACS), in November 1991 (see Note D of Notes to Consolidated Financial Statements), as well as to costs expected to be incurred in connection with the start-up of manufacturing operations internationally.

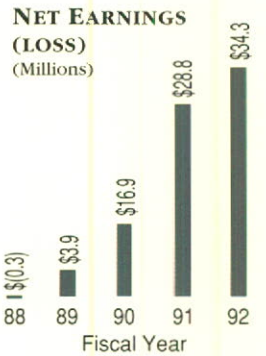
Selling, General and Administrative. Selling, general and administrative expenses remained at approximately 31% of net sales for each of the last three fiscal years, but have increased in dollars by 66% and 63% in fiscal 1992 and fiscal 1991. The dollar increases were primarily due to increased commissions on higher sales volumes, continued expansion of the cardiology sales force and increased marketing expenses for cardiology products. Fiscal 1992 selling, general and administrative expenses were negatively impacted by high legal fees connected with the litigation with ACS. The Company expects aggregate selling, general and administrative expenses to continue to increase during fiscal 1993.

Royalties. Royalty expense in fiscal 1992 relates primarily to the ACS settlement. For fiscal 1993, the combination of royalties and amortization of license fees to be paid in connection with the settlement is anticipated to aggregate between 10% and 12% of net sales, but is dependent upon sales mix and may be higher or lower.

Research and Development. Research and development expenses have increased steadily over the past three fiscal years, almost doubling in fiscal 1992 to $11,353,000, the result of planned investment in new product programs for both the cardiology and peripheral vascular interventional markets. The Company believes that sizeable R&D expenditures are necessary given the nature of its business, and expects to increase R&D spending by at least 50% in fiscal 1993.

Litigation Settlement. The $28 million litigation settlement for fiscal 1992 relates to the settlement of patent litigation with ACS and was paid in January 1992. Additional $10 million license fee payments, which are being amortized over a five year period, will be paid to ACS under the settlement agreement in January 1993 and January 1994.

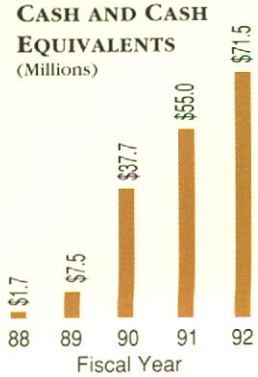
Operating Profit. Despite the impact of the litigation settlement and the related royalty expense, fiscal 1992 operating profit increased by 13% over 1991, due to higher sales and gross profit, but declined as a percent of sales to 26.1% in fiscal 1992. Fiscal 1991 operating profit of 37.9% of net sales was consistent with fiscal 1990 operating profit of 37.6%.



Other Income. Other income increased 15% in fiscal 1992 due to interest income on higher cash balances, but declined as a percent of net sales to 2.1% from 3.0% in fiscal 1991, a reflection of the steadily declining interest rate environment during the year. Other income in fiscal 1991 increased 284% over 1990 due to interest income on higher cash balances and higher prevailing interest rates.

Income Taxes. For fiscal 1992, a provision for income taxes of $17,594,000, or an effective rate of 33.9%, was recorded, compared to an effective rate of 37.1% for 1991 and 35.6% for 1990. The lower 1992 rate is attributable partially to deferred tax benefits recorded in connection with the adoption of Financial Accounting Standard No. 109 during fiscal 1992, which favorably impacted the effective rate by approximately 1.5%. The fiscal 1992 effective rate also benefitted from a higher research and experimentation credit and from increased tax benefits associated with export sales made through the Company's Foreign Sales Corporation. The fiscal 1991 effective rate was higher than 1990 due primarily to higher state income taxes.

CASH AND CASH EQUIVALENTS
(Millions)



Net Earnings. Net earnings for fiscal 1992 of $34,338,000 ($2.25 per share fully diluted) increased 19% over fiscal 1991 earnings of $28,755,000 ($1.90 per share fully diluted). Fiscal 1991 net earnings rose 71% over 1990 earnings. The decline in the rate of earnings growth in fiscal 1992 is due primarily to the effects of the ACS settlement.

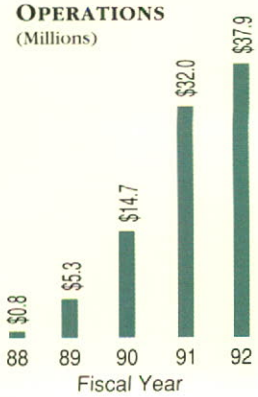
Effects of Inflation. The Company does not believe that inflation has significantly affected its operating or financial ratios in fiscal 1992 as compared to 1991 and 1990.

FINANCIAL CONDITION

The Company continues to maintain a strong balance sheet, as evidenced by the following liquidity trends:

	February 29 (28)		
	1992	1991	1990
Cash and cash equivalents	$ 71,464,000	$ 55,016,000	$ 37,690,000
Current assets	113,896,000	78,834,000	52,321,000
Working capital	82,511,000	65,072,000	44,288,000
Shareholders' equity	127,667,000	87,345,000	50,952,000
Cash flow from operations	37,894,000	32,000,000	14,657,000

CASH FLOW FROM OPERATIONS
(Millions)



Cash and cash equivalents represented approximately 42% of total assets at February 29, 1992, and increased from the prior year due primarily to cash generated from operations. The Company believes that its present cash balances, together with cash generated from operating activities, will be sufficient to fund its anticipated operating and capital requirements for the foreseeable future. The current ratio declined to 3.6 to 1 at February 29, 1992, from 5.7 to 1 at February 28, 1991, due to increases in current liabilities associated with the ACS settlement. Currently, the Company has no long-term debt borrowings or operating credit lines.

Accounts receivable increased $8.4 million in fiscal 1992, or 51% on increased sales volume of 65%. Average accounts receivable turnover improved to 8.9 in fiscal 1992 from 8.4 in 1991. Inventories increased $2.3 million, or 37%, in fiscal 1992. Average inventory turnover decreased from 6.0 in fiscal 1991 to 4.9 in fiscal 1992. Both inventories and accounts receivable are expected to increase during fiscal 1993.

Capital expenditures were $8,774,000 in fiscal 1992, up 48% from 1991 and 72% from 1990. The increases are attributable to capital investments made in several areas, including production capacity, new products, research and development, information systems, new facilities, facility improvements and furnishings. Capital spending is expected to increase significantly in fiscal 1993 as the Company continues to invest in these areas.

Consolidated Balance Sheets

	February 29 (28) 1992	1991
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 71,464,000	$ 55,016,000
Treasury note (Note J)	5,035,000	—
Trade accounts receivable less allowance for doubtful accounts of $765,000 and $620,000, respectively	24,778,000	16,398,000
Receivable from Avecor Cardiovascular, Inc. (Note N)	1,013,000	—
Other receivables	291,000	414,000
Inventories (Note B)	8,291,000	6,031,000
Deferred income tax asset (Note H)	2,279,000	755,000
Prepaid expenses	745,000	220,000
Total Current Assets	113,896,000	78,834,000
Equipment and Furnishings, net (Note C)	15,036,000	10,493,000
License Fees and Purchased Technology less accumulated amortization of $2,721,000 and $1,018,000, respectively (Note E)	30,636,000	11,932,000
Long-term Deferred Income Tax Asset (Note H)	586,000	—
Investment in Heart Technology, Inc. (Note F)	8,000,000	—
Other Assets, net	741,000	315,000
	$168,895,000	$101,574,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Trade accounts payable	$ 8,334,000	$ 5,193,000
Salaries and wages payable	8,438,000	5,650,000
Current portion of license fees payable (Note E)	10,059,000	—
Royalties payable	3,287,000	—
Income taxes payable	189,000	1,942,000
Other current liabilities	1,078,000	977,000
Total Current Liabilities	31,385,000	13,762,000
Long-term License Fees Payable (Note E)	9,484,000	—
Deferred Income Tax Liability (Note H)	—	74,000
Other Long-term Liabilities	359,000	393,000
Commitments and Contingencies (Note I)		
Shareholders' Equity (Note G):		
Common stock, par value $.05 per share, authorized 100,000,000 shares, issued and outstanding 14,885,684 and 14,635,946 shares, respectively	744,000	732,000
Additional paid-in capital	43,328,000	37,357,000
Retained earnings	83,595,000	49,256,000
	127,667,000	87,345,000
	$168,895,000	$101,574,000

See notes to consolidated financial statements.

Consolidated Statements of Earnings

	Year Ended February 29 (28)		
	1992	1991	1990
Net Sales	$183,892,000	$111,779,000	$ 67,362,000
Cost of Sales	35,348,000	29,097,000	17,667,000
Gross Profit	148,544,000	82,682,000	49,695,000
Operating Expenses:			
Selling, General and Administrative	57,073,000	34,426,000	21,094,000
Royalties (Notes D and E)	4,034,000	122,000	—
Research and Development	11,353,000	5,752,000	3,293,000
Litigation Settlement (Note D)	28,000,000	—	—
Operating Profit	48,084,000	42,382,000	25,308,000
Interest Income	3,999,000	3,547,000	1,128,000
Interest Expense (Note K)	256,000	167,000	260,000
Other Income (Expense), net	105,000	(43,000)	1,000
Earnings Before Income Taxes	51,932,000	45,719,000	26,177,000
Income Taxes (Notes A and H)	17,594,000	16,964,000	9,318,000
Net Earnings	$ 34,338,000	$ 28,755,000	$ 16,859,000
Primary Earnings Per Common Share	$ 2.27	$ 1.98	$ 1.29
Fully Diluted Earnings Per Common Share	$ 2.25	$ 1.90	$ 1.21
Weighted Average Number of Common and Common Equivalent Shares Outstanding	15,126,000	14,536,000	13,060,000

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

	Year Ended February 29 (28)		
	1992	1991	1990
Cash flows from operating activities:			
Net earnings	$ 34,338,000	$ 28,755,000	$ 16,859,000
Tax benefit relating to stock option plans and employee stock purchase plan	3,985,000	4,016,000	335,000
Depreciation and amortization	5,133,000	2,804,000	1,170,000
Deferred income taxes, net	(2,184,000)	(662,000)	47,000
Net loss on sale of equipment	30,000	65,000	—
Deferred rent	(34,000)	(7,000)	335,000
Changes in working capital items:			
(Increase) Decrease in:			
Trade and other receivables	(8,257,000)	(6,371,000)	(6,055,000)
Inventories	(2,260,000)	(2,399,000)	(1,332,000)
Prepaid expenses	(525,000)	70,000	(178,000)
Increase (Decrease) in:			
Trade accounts payable	3,141,000	1,844,000	1,519,000
Salaries and wages payable	2,788,000	2,945,000	1,469,000
Accrued interest payable	—	(53,000)	—
Royalties payable	3,287,000	—	—
Income taxes payable	(1,753,000)	435,000	262,000
Other, net	205,000	558,000	226,000
Net cash provided by operating activities	37,894,000	32,000,000	14,657,000
Cash flows from investing activities:			
Investment in equipment, furnishings and facilities	(8,774,000)	(5,948,000)	(5,114,000)
Payment of license fees and purchases of technology	(1,120,000)	(9,250,000)	(500,000)
Investment in Heart Technology, Inc.	(8,000,000)	—	—
Purchase of treasury note	(5,035,000)	—	—
Sales of Surgical Division assets	(3,480,000)	—	—
Cash received from sale of Surgical Division	2,480,000	—	—
Proceeds on sale of equipment	4,000	127,000	—
Other, net	512,000	(71,000)	(42,000)
Net cash used in investing activities	(23,413,000)	(15,142,000)	(5,656,000)
Cash flows from financing activities:			
Sales of common stock under stock option plans, common stock warrants and employee stock purchase plan	2,123,000	1,792,000	1,010,000
Retirements of common stock	(156,000)	(1,296,000)	(48,000)
Net proceeds from public stock offering	—	—	20,450,000
Public stock offering expenses	—	(28,000)	(205,000)
Net cash provided by financing activities	1,967,000	468,000	21,207,000
Net increase in cash and cash equivalents	16,448,000	17,326,000	30,208,000
Cash and cash equivalents:			
Beginning of year	55,016,000	37,690,000	7,482,000
End of year	$ 71,464,000	$ 55,016,000	$ 37,690,000

See notes to consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity

	Common Stock		Additional Paid-in	Retained
	Shares	Amount	Capital	Earnings
Balances at February 28, 1989	11,566,304	$ 578,000	$ 8,300,000	$ 3,642,000
Net proceeds from sale of common stock under public stock offering	1,000,000	50,000	20,400,000	
Sales of common stock under options, warrants and stock purchase plan	532,746	27,300	983,000	
Retirement of common stock	(5,220)	(300)	(48,000)	
Tax benefit relating to incentive stock option and employee stock purchase plans			335,000	
Amortized compensation expense-restricted common stock			31,000	
Public stock offering expenses			(205,000)	
Net earnings				16,859,000
Balances at February 28, 1990	13,093,830	655,000	29,796,000	20,501,000
Issuance of common stock under conversion of subordinated note	870,822	44,000	3,079,000	
Sales of common stock under options, warrants and stock purchase plan	705,260	35,000	1,757,000	
Retirements of common stock	(33,966)	(2,000)	(1,294,000)	
Tax benefit relating to incentive stock option and employee stock purchase plans			4,016,000	
Amortized compensation expense-restricted common stock			31,000	
Public stock offering expenses			(28,000)	
Net earnings				28,755,000
Balances at February 28, 1991	14,635,946	732,000	37,357,000	49,256,000
Sales of common stock under options, warrants and stock purchase plan	251,838	12,100	2,111,000	
Retirements of common stock	(2,100)	(100)	(156,000)	
Tax benefit relating to incentive stock option and employee stock purchase plans			3,985,000	
Amortized compensation expense-restricted common stock			31,000	
Net earnings				34,339,000
Balances at February 29, 1992	14,885,684	$ 744,000	$ 43,328,000	$ 83,595,000

See notes to consolidated financial statements.

Three Years Ended February 29, 1992

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General: SCIMED Life Systems, Inc. is engaged in the design, manufacture and sale of disposable medical products used in the treatment of cardiovascular disease.

Consolidation: The consolidated financial statements include the accounts of SCIMED Life Systems, Inc. and two wholly-owned sales subsidiaries (collectively, the Company). All material intercompany profits, transactions and balances have been eliminated in consolidation. Certain reclassifications of previously reported amounts have been made to conform with the current year presentation and had no effect on net earnings or shareholders' equity previously reported.

Revenue recognition: The Company recognizes revenue at the time product is shipped. The Company allows its customers to return products for partial credit provided the products are in their original, unopened packages and are in good, saleable condition. The Company also allows customers to return defective product for credit or replacement. All returned merchandise will be accepted only with written authorization from the Company. Historically, product returns have not been significant.

Cash equivalents: The Company considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents.

Inventories: Inventories are stated at the lower of cost (first-in, first-out method) or market.

Equipment and furnishings: The cost of equipment and furnishings is depreciated using the straight-line method over periods ranging from three to eight years.

Amortization: The cost of license fees and purchased technology is amortized using the straight-line method over periods ranging from 4 to 20 years.

Income taxes: The Company adopted Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," during the year ended February 29, 1992. Adoption of the statement did not have a cumulative material impact on the Company as of March 1, 1991; however, the Company's fiscal 1992 income tax provision was approximately $785,000 lower, or 5 cents per share, due to the statement's liberalized tax asset recognition criteria.

Earnings per common and common equivalent share: Earnings per common and common equivalent share are calculated by dividing the earnings for the period by the weighted average number of common and common equivalent shares outstanding during the year, which includes the dilutive effect of outstanding stock options and warrants. Fully diluted earnings per share for the years ended February 28, 1991 and 1990, also include the dilutive effect of convertible debt.

B. INVENTORIES

	February 29 (28)	
	1992	1991
Raw material	$ 1,981,000	$ 1,344,000
Work in process	1,855,000	2,650,000
Finished goods	4,455,000	2,037,000
	$ 8,291,000	$ 6,031,000

C. EQUIPMENT AND FURNISHINGS

	February 29 (28)	
	1992	1991
At cost:		
Machinery and equipment	$ 17,360,000	$ 12,731,000
Furniture and fixtures	1,729,000	1,564,000
Leasehold improvements	2,633,000	2,452,000
	21,722,000	16,747,000
Less accumulated depreciation	(6,686,000)	(6,254,000)
	$ 15,036,000	$ 10,493,000

D. LITIGATION SETTLEMENT

On November 27, 1991, the Company entered into a broad agreement with Advanced Cardiovascular Systems, Inc. (ACS), a subsidiary of Eli Lilly and Company (Lilly) which included the settlement of all existing litigation between the companies and also resolved potential future disputes between the parties over all existing and certain future products . Under the settlement agreement, ACS has granted the Company a worldwide non-exclusive license to make, use and sell its existing products and future products under United States Patents 4,323,071 and Re 33,166 and corresponding foreign patents, and a worldwide non-exclusive license until November 30, 1993, to make, use and sell its *EXPRESS* catheter product under United States Patents 5,040,548 and 5,061,273. The Company and ACS/Lilly have also entered into covenants not to sue the other on existing and certain future products for infringement of any patents filed or issued prior to December 1, 1993, on inventions conceived as of December 1, 1991.

Pursuant to the settlement agreement, the Company made a $28,000,000 cash payment in January 1992 and will make annual $10,000,000 license payments in January 1993 and January 1994. In addition, the Company will pay royalties equal to 7 1/2% of net sales under the '071 and '166 license until April 1999, and 20% of net sales under the *EXPRESS* license for *EXPRESS* product manufactured or sold in the United States until November 30, 1993.

E. LICENSE FEES AND PURCHASED TECHNOLOGY

During the year ended February 29, 1992, the Company acquired worldwide non-exclusive licenses from Advanced Cardiovascular Systems, Inc. for future payments totaling $20,000,000 as described in Footnote D above. The future payments have been discounted to $18,375,000 using appropriate interest rates to reflect the present value of the license fees.

Also during the year ended February 29, 1992, the Company acquired worldwide exclusive and non-exclusive licenses to make, use and sell SCIMED products incorporating certain braided tubing materials and materials technology for a total license fee of $2,000,000. $1 million of the fee was paid during the year ended February 29, 1992, with annual payments of $500,000 to be made in February 1993 and February 1994. The licensing agreements require the Company to pay royalties of 1/2% to 1% of net sales of applicable products and to make minimum product purchases aggregating $5,850,000 during the five years ending February 28, 1996.

During the year ended February 28, 1991, the Company acquired a worldwide non-exclusive license for a patent and pending patent application held by C. R. Bard, Inc., encompassing technology for fixed-wire balloon angioplasty catheters, for a one-time, paid-up license fee of $8,500,000. The license agreement also provided for the settlement of certain patent litigation between Bard and the Company.

The Company owns angioplasty catheter technology purchased in 1987 for $3,200,000 and originally developed under contracts with a research and development limited partnership. The Company also owns guide catheter technology purchased from Wilson Biomedical, Inc. during the year ended February 28, 1990, for $1,250,000. The Company is also paying royalties to Wilson on guide catheter sales, which cease when cumulative royalties reach $3,150,000.

F. INVESTMENT IN HEART TECHNOLOGY, INC.

On April 30, 1991, the Company purchased 219,178 shares of Series C Convertible Voting Preferred Stock of Heart Technology, Inc. (HTI) for $8,000,000. HTI is a developer of atherectomy catheters for mechanical removal of plaque from obstructed blood vessels. The preferred stock was converted into common stock in March 1992 in connection with a 5 for 1 stock split and the completion of an initial public offering of HTI common stock. The Company's resulting ownership of 1,095,890 shares represents 6.7% of HTI's common equity upon conversion of all common stock equivalents. The stock pays no dividends.

G. COMMON STOCK, STOCK OPTIONS AND WARRANTS

At February 29, 1992, there were 2,203,813 shares of common stock reserved for issuance under stock option and stock purchase plans, stock appreciation rights and for exercise of warrants.

The Company has three qualified incentive stock option plans and two non-qualified stock option plans. Under the plans, options are granted to employees, officers and directors of the Company to purchase authorized but unissued shares at prices no less than market value on the date of grant. A maximum of 3,240,000 options may be granted under these plans of which 2,068,720 had been granted at February 29, 1992. Options expire at various dates through, June 2001, or 90 days after termination of employment. At February 29, 1992, there were 517,533 options outstanding, of which 222,177 were exercisable. The balance of 295,356 options outstanding becomes exercisable at various dates through May 1995.

Changes in options outstanding are as follows:

	Shares	*Average Price*
Outstanding at February 28, 1990	1,082,452	$ 4.23
Granted	118,200	22.94
Exercised	(582,408)	2.06
Cancelled	(26,304)	9.63
Outstanding at February 28, 1991	591,940	9.63
Granted	156,380	46.50
Exercised	(213807)	5.97
Cancelled	(16,980)	39.05
Outstanding at February 29, 1992	517,533	$ 21.06

The Company has an employee stock purchase plan under which 300,000 shares of common stock are reserved for issuance to employees. The plan commenced August 1, 1991, and terminates July 31, 1994. Under terms of the plan, eligible employees may designate up to 10% of their salary for purchase of common stock at 85% of the applicable market price. For the three years ended February 29, 1992, 103,849 shares were issued under an employee stock purchase plan which has expired.

During the year ended February 28, 1991, the Company established a performance share plan under which 100,000 shares of common stock are reserved for issuance to employees. Under terms of the plan, eligible employees are awarded stock appreciation rights to receive (in stock or cash) the appreciated value of the Company's common stock between the date of grant and the vesting date. At February 29, 1992, 17,280 stock appreciation rights were issued and outstanding under the plan.

The Company has issued warrants to a member of its Board of Directors on 44,000 shares of common stock. During the year ended February 29, 1992, warrants on 16,000 of these shares were exercised at $7.6875. Warrants on 8,000 of these shares are exercisable at $7.6875 per share until February 28, 1994. Warrants on the remaining 20,000 shares are exercisable at $7.625 per share until March 7, 1994.

The Company has issued warrants to another member of its Board of Directors on 60,000 shares of common stock and has sold or issued warrants to a former financial advisor on 300,000 shares of common stock. All of these warrants were exercised during the years ended February 28, 1991 and 1990.

During the year ended February 28, 1990, the Company completed a public stock offering of 2,219,000 shares at $21.50 per share, 1,000,000 shares of which were sold by the Company and 1,219,000 shares of which were sold by certain shareholders. The Company received proceeds of $20,450,000 from the offering, net of underwriting discounts and commissions of $1,050,000.

The Company has awarded 16,800 shares of restricted common stock to certain employees. The stock vests to the employees in increments, 50% in 1991 and 25% each in 1992 and 1993.

H. INCOME TAXES

Income tax expense consists of the following:

	Year Ended February 29 (28)		
	1992	1991	1990
Current:			
Federal	$18,115,000	$16,053,000	$8,640,000
State	1,663,000	1,573,000	631,000
	19,778,000	17,626,000	9,271,000
Current deferred tax asset	(1,524,000)	(487,000)	(43,000)
Non-current deferred tax asset	(586,000)	—	—
Non-current deferred tax liability	(74,000)	(175,000)	90,000
	$17,594,000	$16,964,000	$9,318,000

The provision for income taxes differs from the federal statutory tax rate as follows:

	Year Ended February 29 (28)		
	1992	1991	1990
Federal tax at statutory rate	34.0%	34.0%	34.0%
State taxes, net of federal benefit	2.3	2.6	1.6
Tax benefit of Foreign Sales Corporation	(1.2)	(0.5)	(0.4)
Research & experimentation tax credit	(1.1)	(0.6)	(0.7)
Other	(0.1)	1.6	1.1
	33.9%	37.1%	35.6%

Deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities. Temporary differences comprising the net deferred taxes shown on the consolidated balance sheet are as follows:

	Year Ended February 29, 1992			*Year Ended February 28,*
	Assets	Liabilities	Total	*1991*
Asset reserves	$ 718,000		$ 718,000	$ 237,000
Employee compensation and benefit accruals	1,009,000		1,009,000	420,000
Other accruals and reserves	460,000		460,000	172,000
Excess of tax over book depreciation		$(202,000)	(202,000)	(74,000)
Amortization	474,000		474,000	
Other	406,000		406,000	(74,000)
	$3,067,000	$(202,000)	$2,865,000	$ 681,000

For the three years ended February 29, 1992, February 28, 1991 and 1990, cash payments for income taxes were $17,546,000, $13,179,000, and $8,673,000, respectively.

I. COMMITMENTS AND CONTINGENCIES

On April 24, 1991, a lawsuit was brought against the Company in United States District Court for the District of Minnesota, by Schneider, Inc., a subsidiary of Pfizer Inc., alleging that the Company's *EXPRESS* catheter infringes U.S. patent No. 4,762,129. On May 2, 1991, the Company filed a lawsuit against Schneider, Inc., alleging patent infringement on a U.S. patent owned by the Company. Each company has denied the others' claims and discovery is underway.

Immediately after a significant market price decline in the Company's common stock following a September 25, 1991 press release which commented on, among other items, the status of the *EXPRESS* product line in the United States, the Company was served with several lawsuits brought by various shareholders alleging that the Company and certain officers and directors had violated state and federal securities laws. On December 27, 1991, a consolidated and amended complaint was filed in United States District Court for the District of Minnesota, alleging similar securities law violations and seeking class action certification. An answer was filed by the Company denying all claims, and discovery has recently commenced. The Company believes the lawsuit is without merit and intends to vigorously defend itself.

The Company leases its office, manufacturing, warehouse, and research facilities under operating leases which carry various minimum lease terms through April 1997. Certain of these leases also carry renewal options. The Company also leases equipment under various operating leases. Rental expense for the three years ended February 29, 1992, February 28, 1991 and 1990, was $2,405,000, $1,801,000 and $1,084,000, respectively. At February 29, 1992, aggregate minimum future lease payments were as follows:

1993	$1,473,000
1994	1,294,000
1995	395,000
1996	329,000
1997 and beyond	296,000
	$3,787,000

J. LETTER OF CREDIT

The Company has obtained a $5,000,000 irrevocable standby letter of credit with First Bank Minneapolis, which can be used under certain circumstances to fund the Company's indemnification obligation to officers and directors under Minnesota law. The letter of credit was unused as of February 29, 1992, and is secured by a U.S. Treasury note owned by the Company. Drawings under the letter of credit carry interest at 1% over the bank's prime rate per annum.

K. CONVERTIBLE SUBORDINATED NOTE

In 1987 the Company borrowed $3,200,000 from Bristol-Myers Company (now Bristol-Myers Squibb) under a subordinated note agreement. During the year ended February 28, 1991, the debt was converted to common stock of the Company at $3.70 per share, adjusted for certain events and capital transactions. Prior to the conversion, interest was payable quarterly at 8% . Cash payments for interest for the years ended February 28, 1991 and 1990, were $195,000 and $260,000, respectively.

L. MAJOR DISTRIBUTORS AND FOREIGN SALES

No one distributor or customer accounted for more than 10% of sales for the three years ended February 29, 1992. The Company currently has no foreign operations. Export sales (payable primarily in U.S. dollars) were as follows:

1992	$32,060,000
1991	14,862,000
1990	9,488,000

M. RETIREMENT SAVINGS PLAN

The Company has a 401(k) retirement savings and profit sharing plan under which eligible employees may contribute up to 10% of their salaries. Currently the Company matches 30% of employee contributions to a maximum of 1.8% of salary. Additional Company contributions can be declared at the discretion of the Board of Directors. All administrative costs are paid by the Company. For the three years ended February 29, 1992, February 28, 1991 and 1990, Company contribution expense was $1,705,000, $1,127,000 and $518,000, respectively.

N. SALE OF SURGICAL DIVISION

On June 7, 1991, the Company sold the assets of its Surgical Division to Avecor Cardiovascular, Inc., a company based in Minneapolis, Minnesota and organized by a group of senior managers formerly with Bio-Medicus, Inc. The Company has not recorded either a gain or loss in connection with the sale. The Surgical Division sold membrane oxygenators and other perfusion products used during coronary artery bypass graft surgery. This division represented less than 10% of the Company's sales. The assets sold consisted of accounts receivable, inventory and fixed assets and represented less than 5% of the Company's assets. The Company received $1,000,000 on the date of the sale and financed the remainder of the purchase price of $3,480,000 under a one-year promissory note for $2,480,000 with simple interest at 8%. In December 1991, Avecor paid $1,480,000 on the note plus accrued interest.

Independent Auditors' Report

Board of Directors
SCIMED Life Systems, Inc.
Minneapolis, Minnesota

We have audited the accompanying consolidated balance sheets of SCIMED Life Systems, Inc. and subsidiaries as of February 29, 1992 and February 28, 1991, and the related consolidated statements of earnings, cash flows, and changes in shareholders' equity for each of the three years in the period ended February 29, 1992. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SCIMED Life Systems, Inc. and subsidiaries as of February 29, 1992 and February 28, 1991, and the results of their operations and their cash flows for each of the three years in the period ended February 29, 1992, in conformity with generally accepted accounting principles.

As discussed in Note I to the consolidated financial statements, the Company is a defendant in two lawsuits, one alleging infringement of certain patent rights and one alleging violation of federal securities laws. The ultimate outcome of the litigation cannot presently be determined. Accordingly, no provision for any liability that may result upon adjudication of the lawsuits has been made in the accompanying consolidated financial statements.

Deloitte & Touche

Minneapolis, Minnesota
April 10, 1992

Report Of Management

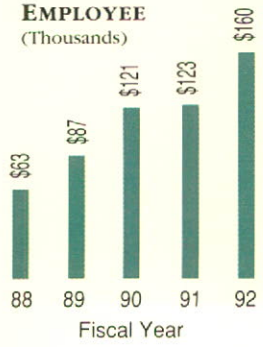
The financial statements of SCIMED Life Systems, Inc. published in this report were prepared by company management, which is responsible for their integrity and objectivity. The statements have been prepared in accordance with generally accepted accounting principles, applying certain estimates and judgments as required. The financial information elsewhere in this report is consistent with the statements.

SCIMED maintains a system of internal control adequate to provide reasonable assurance that its transactions are appropriately recorded and reported, its assets are protected and its established policies are followed. This system is enforced by written policies and procedures, internal audit activities and a qualified financial staff.

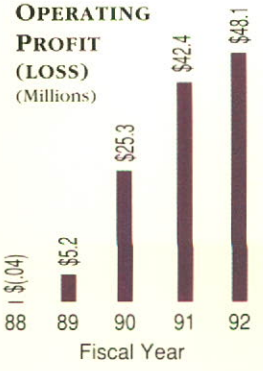
Our independent auditors, Deloitte & Touche, provide an objective independent review by audit of SCIMED's financial statements and issuance of an opinion thereon. Their audit is conducted in accordance with generally accepted auditing standards.

The Audit Committee of the Board of Directors, comprised solely of outside directors, meets with the independent auditors and representatives from management to appraise the adequacy and effectiveness of the audit functions, control systems and quality of our financial accounting and reporting.

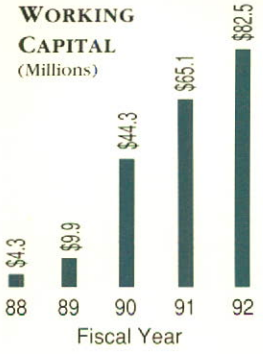
SALES PER EMPLOYEE
(Thousands)



OPERATING PROFIT (LOSS)
(Millions)

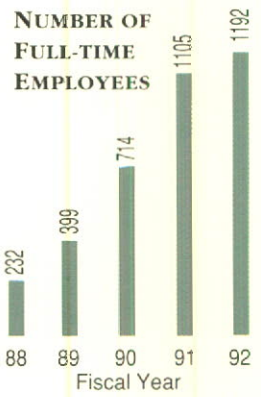


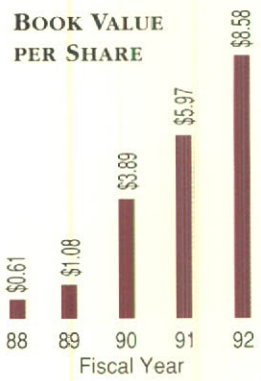
WORKING CAPITAL
(Millions)



FIVE YEAR FINANCIAL DATA

	Fiscal Year Ended February 29 (28)				
	1992	1991	1990	1989	1988
OPERATING RESULTS					
Net sales	$183,892,000	$111,779,000	$67,362,000	$27,424,000	$14,027,000
Gross profit	148,544,000	82,682,000	49,695,000	17,398,000	6,628,000
Gross profit percentage	81%	74%	74%	63%	47%
Selling, general and administrative expenses	57,073,000	34,426,000	21,094,000	10,599,000	5,635,000
Research and development expenses	11,353,000	5,752,000	3,293,000	1,552,000	1,331,000
Operating profit (loss)	48,084,000	42,382,000	25,308,000	5,247,000	(372,000)
Earnings (loss) before income taxes	51,932,000	45,719,000	26,177,000	5,279,000	(321,000)
Income taxes	17,594,000	16,964,000	9,318,000	1,355,000	—
Net earnings (loss)	34,338,000	28,755,000	16,859,000	3,924,000	(321,000)
Fully diluted earnings (loss) per share	$ 2.25	$ 1.90	$ 1.21	$ .31	$ (.03)
FINANCIAL POSITION					
Working capital	$ 82,511,000	$ 65,072,000	$44,288,000	$ 9,948,000	$ 4,309,000
Current ratio	3.6	5.7	6.5	3.2	3.3
Cash and cash equivalents	71,464,000	55,016,000	37,690,000	7,482,000	1,677,000
Fixed assets, net	15,036,000	10,493,000	6,879,000	2,756,000	1,788,000
Total assets	168,895,000	101,574,000	62,834,000	20, 501,000	11,345,000
Long-term obligations	9,843,000	467,000	3,849,000	3,424,000	3,200,000
Shareholders' equity	127,667,000	87,345,000	50,952,000	12,520,000	6,248,000
Book value per share	$ 8.58	$ 5.97	$ 3.89	$ 1.08	$ .61
ADDITIONAL INFORMATION					
Domestic sales	$151,832,000	$ 96,917,000	$57,874,000	$24,078,000	$11,741,000
International sales	32,060,000	14,862,000	9,488,000	3,346,000	2,286,000
Sales per employee	160,000	123,000	121,000	87,000	63,000
Capital expenditures	8,774,000	5,948,000	5,114,000	1,614,000	553,000
Stock year-end closing price	$ 72.50	$ 44.25	$ 19.25	$ 7.68	$ 3.31
Return on equity	32%	42%	53%	42%	(5%)
Number of full-time employees at year-end	1,192	1,105	714	399	232





QUARTERLY RESULTS

	Net Sales	Gross Profit	Net Earnings (Loss)	Primary Earnings (Loss) Per Share	Fully Diluted Earnings (Loss) Per Share
	(In thousands except earnings per share)				
Fiscal 1992					
Fourth	$ 48,319	$ 39,213	$ 12,348	$ .81	$ .81
Third	49,053	41,093	(1,756)	(.12)	(.12)
Second	44,571	35,425	11,843	.78	.78
First	41,950	32,814	11,903	.78	.78
Fiscal 1991					
Fourth	$ 32,788	$ 24,539	$ 8,046	$ .53	$ .53
Third	28,693	20,896	7,324	.50	.49
Second	25,887	19,122	6,967	.49	.46
First	24,411	18,125	6,419	.45	.43
Fiscal 1990					
Fourth	$ 20,756	$ 15,964	$ 5,321	$ .40	$ .37
Third	19,170	14,156	4,865	.37	.35
Second	15,503	11,230	4,065	.31	.29
First	11,932	8,345	2,608	.20	.19

COMMON STOCK INFORMATION

The following sets forth the range of closing prices in each fiscal quarter for the last two years:

	1992		1991	
	High	Low	High	Low
First Quarter	53 1/4	42 3/4	33	20
Second Quarter	85	51 1/4	41 1/4	30 1/4
Third Quarter	91 1/2	44	31 3/4	22 1/2
Fourth Quarter	90 1/2	60	44 1/4	26 1/2

The Company has not paid cash dividends in the past and does not expect to do so in the foreseeable future.

THE MANAGEMENT PHILOSOPHY AT SCIMED HELPS US TO ACHIEVE OUR GOALS WHILE BENEFITING BOTH THE EMPLOYEES AND THE COMMUNITY AROUND US

Seated left to right: Michael Frankenberg, Craig Dvorak, Brian Mandeville, Edward Andrle
Standing left to right: Michael Berman, Thomas Hektner, Daniel Sullivan, Lou Gilbert, David Waggoner, Daniel Adams

BOARD OF DIRECTORS

Randall F. Bellows
Retired Executive Vice President
Cobe Laboratories, Inc.

Richard B. Emmitt
Managing Director
The Vertical Group, Inc.

Lawrence L. Horsch
Chairman of the Board
Chairman
3E Management & Financial Corp.

Dale A. Spencer
President and CEO
SCIMED Life Systems, Inc.

EXECUTIVE OFFICERS

Dale A. Spencer
President and CEO

Edward S. Andrle
Vice President, Business Development and SCIMED Peripheral Interventions

Craig R. Dvorak
Senior Vice President,
Chief Financial Officer

Michael T. Frankenberg
Vice President, Product Assurance & Regulatory Affairs

Thomas R. Hektner
Senior Vice President, Technology and R&D

Brian W. Mandeville
Senior Vice President, Operations

SENIOR MANAGEMENT

Daniel O. Adams
Vice President, R&D - Cardiology

Michael Berman
Vice President, Marketing - Cardiology

Lou A. Gilbert
Vice President, Human Resources

L. Cecily Hines
General Counsel

Daniel J. Sullivan
Vice President, Sales - Cardiology

David D. Waggoner
Vice President, Operations - Cardiology

ANNUAL MEETING OF SHAREHOLDERS

The Annual Meeting of SCIMED Life Systems, Inc. Shareholders will be held on Tuesday, June 30, 1992, at 3:30 p.m. at the:

Radisson Plaza Hotel
35 South Seventh Street
Minneapolis, Minnesota

SHAREHOLDER INQUIRIES

Communications concerning the transfer of shares, lost certificates, duplicate mailings or changes of address should be directed to the Transfer Agent.

TRANSFER AGENT AND REGISTRAR

Norwest Bank Minnesota, N.A.
Stock Transfer Department
P.O. Box 738
South St. Paul, MN 55075-0738
(612) 450-4064
(800) 468-9716 (toll-free)

INDEPENDENT AUDITORS

Deloitte & Touche
900 Pillsbury Center
Minneapolis, MN 55402-1483

COMMON STOCK

SCIMED had 1,293 common shareholders of record at February 29, 1992. The common stock is traded on the National Market System of the NASDAQ over-the-counter market under the ticker symbol SMLS. SCIMED is included in the Standard and Poor's MidCap 400 Index.

CORPORATE HEADQUARTERS

SCIMED Life Systems, Inc.
6655 Wedgwood Road
Maple Grove, MN 55369-7503
(612) 420-0700

INVESTOR CONTACT

The investing public, securities analysts and shareholders seeking information about the Company should direct their inquiries to:

Karen J. Kelsey
Director, Investor and Public Relations
SCIMED Life Systems, Inc.
6655 Wedgwood Road
Maple Grove, MN 55369-7503
(612) 420-0329

AVAILABILITY OF FORM 10-K

Shareholders may obtain a copy of Form 10-K Annual Report filed by the Company with the Securities and Exchange Commission for Fiscal Year 1992 by writing to:

Shareholder Relations
SCIMED Life Systems, Inc.
6655 Wedgwood Road
Maple Grove, MN 55369-7503

QUARTERLY AND YEAR-END RESULTS

Quarterly results are generally released in June, September, December and April (year-end).

QUARTERLY AND ANNUAL REPORTS

Quarterly reports are mailed in July, October and January. The Annual Report is mailed in May.

SCIMED Life Systems, Inc. is an equal opportunity employer.

SCIMED®
SCIMED Life Systems, Inc.
6655 Wedgwood Road
Maple Grove, Minnesota 55369-7503
(612) 420-0700