

SECURITIES AND EXCHANGE COMMISSION

FORM 10-K405

Annual report pursuant to section 13 and 15(d), Regulation S-K Item 405

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FILER

VITAL SIGNS INC

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Mailing Address
20 CAMPUS RD
TOTOWA NJ 07512

Business Address
20 CAMPUS RD
TOTOWA NJ 07512
2017901330

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 [No Fee Required] For the fiscal year ended September 30, 1996.

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 [No Fee Required] For the transition period from _____ to _____

Commission File Number 0-18793

VITAL SIGNS, INC.

(Exact name of registrant as specified in its charter)

New Jersey 11-2279807
(State or other jurisdiction of (I.R.S. Employer Identification Number)
incorporation or organization)

20 Campus Road,
Totowa, New Jersey 07512
(201) 790-1330

(Address and telephone number, including area code, of
registrant's principal executive office)

Securities registered pursuant to Section 12(b) of the Act: none.

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

Title of each class

Common Stock, no par value

Indicate by checkmark 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

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

Aggregate market value of voting stock held by non-affiliates as of December 1, 1996 was approximately \$129,000,000. Number of shares of Common Stock outstanding as of December 1, 1996: 13,071,383.

Documents incorporated by reference: Definitive Proxy Statement for 1997 Annual Meeting of Shareholders (Part III).

VITAL SIGNS, INC.

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PART I

Item 1. Business

Introduction

Vital Signs, Inc. was initially incorporated in New York in 1972. On December 19, 1988, Vital Signs, Inc. reincorporated in New Jersey through a merger with a then newly formed New Jersey corporation. Unless otherwise indicated, all references in this Annual Report to the "Company" refer to Vital Signs, Inc., its predecessor New York corporation and their consolidated subsidiaries. References to "Vital Signs" refer solely to the parent company. Vital Signs' principal executive offices are located at 20 Campus Road, Totowa, New Jersey 07512; its telephone number at that location is (201) 790-1330.

Vital Signs and its subsidiaries design, manufacture and market single-patient use medical products for anesthesia, respiratory, critical care and emergency. Single-patient use products have captured an increasing share of the medical products market from reusable products, primarily because of their cost advantages and improved patient care features, including reducing the potential of transmitting infections from one patient to another.

The Company has pioneered the development and introduction of a variety of single-patient use products. In 1975, the Company commenced the marketing of clear, non-conductive anesthesia breathing circuits. The first clear plastic, single-use air-filled cushion face mask for anesthesia delivery and resuscitation was launched by the Company in 1981. In 1984, the Company was the first organization to introduce a single-patient use manual resuscitator. The first single-patient use laryngoscope system for use in anesthesia and the critical care arenas was developed and launched by the Company in 1988. The Company has developed a general anesthesia kit (1989), which can combine over 20 disposable items in one convenient, cost-effective package; and the first single patient use infant resuscitation circuit with an adjustable pressure limiting valve (1992), used to protect the infant's lung against over pressurization. In the last three years the Company has developed a stylet-tracheal tube for the removal of meconium during high risk deliveries; a pediatric emergency kit utilizing a unique color coded measuring tape to select the proper sized equipment; and a device for measuring the effect of neuromuscular blockage during anesthesia. In October, 1996, the Company introduced its new flexible face mask ("Flexmask(TM)"), a flush device for vascular access catheters ("Vasceze(TM)") and a closed suction system designed for ventilated patients ("Isocath(TM)").

For additional information regarding these products, see "Business-Products."

The Company's strategy is to sell its principal products to hospitals through its own sales force and third-party distributors. The worldwide sales force consisted of 102 sales employees at October 1, 1996 compared with 104 sales employees at October 1, 1995.

This Annual Report on Form 10-K contains, and from time to time the Company expects to make, certain forward-looking statements regarding its business,

financial condition and results of operations. In connection with the "Safe Harbor" provisions of the Private Securities Reform Act of 1995 (the "Reform Act"), the Company intends to caution investors that there are several important factors that could cause the Company's actual results to differ materially from those projected in its forward-looking statements, whether written or oral, made herein or that may be made from time to time by or on behalf of the Company. Investors are cautioned that such forward-looking statements are only predictions and that actual events or results may differ materially. The Company undertakes no obligation to publicly release the results of any revisions to the forward-looking statements to reflect events or circumstances or to reflect the occurrence of unanticipated events.

The Company wishes to ensure that any forward-looking statements are accompanied by meaningful cautionary statements in order to comply with the terms of the safe harbor provided by the Reform Act. Accordingly, the Company has set forth a list of important factors that could cause the Company's actual results to differ materially from those expressed in forward-looking statements or predictions made herein and from time to time by the Company. Specifically, the Company's business, financial condition and results of operations could be materially different from such forward-looking statements and predictions as a result of (i) competitive factors that could affect the Company's primary markets, including the results of competitive bidding procedures implemented by Group Purchasing Organizations, interruptions or delays in manufacturing and/or sources of supply, and increased market acceptance of competitors' existing or new products, (ii) adverse determinations arising in the context of regulatory matters (see "--Regulation") or legal proceedings (see Item 3 of this Annual Report on Form 10K) and (iii) legislative changes impacting the healthcare market.

Acquisitions - Current Fiscal Year

In January 1996, the Company acquired the outstanding stock of HealthStar Pharmaceutical Services, Inc., a contract manufacturer utilizing blow-fill-seal technology for use in the pharmaceutical and medical fields. See "--Services" and Note 2 to the Company's Consolidated Financial Statements.

In fiscal 1996, the Company acquired the remaining 50% interest in Coast Medical, Inc, a manufacturer of OEM medical products. The Company had acquired its initial 50% interest in Coast Medical Inc., in April 1992. On December 4, 1995 the Company acquired the MistyOx product line. That product line consists of three sets of products used in the delivery of hydration to patients.

Historically, the Company has made both product and business acquisitions. Although no assurances can be given with respect to future acquisitions, the Company's acquisition strategy currently is focused upon the following objectives: (i) identification and acquisition of companies and/or products in the anesthesia, respiratory and critical care fields with the goal of expanding the products that can be sold by the Company's direct sales force, (ii) expansion of sales and marketing capabilities to international markets, and (iii) unique research and development capabilities.

Products

Principal Products.

The Company markets a wide variety of single-patient use anesthesia, respiratory and related critical care products. Its principal products are described below:

Anesthesia Products:

Face Masks. In 1981, the Company introduced the first clear plastic air-filled cushion face mask for single-patient anesthesia and respiratory use. The soft air-filled cushion face mask has been clinically documented to provide a better seal on most patients than other face masks, thus improving the delivery of anesthetic gases and oxygen to the patient. A clear face mask also permits the clinician to better observe certain patient problems, such as life-threatening aspiration. The Company offers various sizes and types of face masks. The Company anticipates that the usage of single patient use face masks in surgical procedures internationally will continue to expand as single-patient use products become increasingly accepted in foreign hospitals. In October 1996 the Company introduced a flexible face mask product (Flexmask(TM)).

Anesthesia Breathing Circuits. The Company offers a wide variety of single-patient use anesthesia breathing circuits, which are used to connect the patient to the anesthesia machine and to various patient monitors. Each breathing circuit consists of at least two flexible hoses, a breathing bag, and a "Y" and elbow attachment. Since the breathing circuit needs of hospitals vary significantly, the Company offers a large variety of circuits designed to be compatible with anesthesia equipment manufactured by numerous other companies.

Technological advances in the areas of gas sampling, temperature monitoring and humidification have provided the Company with an opportunity to develop many additional varieties of circuits.

INFUSABLE(R) Disposable Pressure Infusor. Invasive pressure monitoring has been used since the early 1970's as a means of monitoring blood and other fluid pressures of patients in certain critical care situations. The monitoring process involves inserting a catheter, usually into the artery or vein of the patient, connecting the catheter to a transducer (a device which converts the pressure impulse from the patient's blood into an electrical signal), and transmitting the electrical signal to a monitoring screen. The monitoring process uses a fluid-filled conduit to connect the catheter to the transducer. The fluid generally is a saline solution forced into the system by a pressure infusor. A company acquired by Vital Signs introduced its patented INFUSABLE(R) disposable pressure infusor to the market in late 1986 and early 1987. The Company's infusor, which is used in invasive pressure monitoring and rapid infusion of fluids, consists of an inflatable bladder, a bulb to pump air into the bladder and a pressure gauge. The infusor also has a mesh netting into which a package of sterile fluid or "solution bag" is placed. The fluid is connected to the monitoring system and the pressure on the solution bag is set at a pressure level designed to maintain the pressure required by the monitoring system.

General Anesthesia Systems. The Company assembles and markets General Anesthesia System customized anesthesia kits, which can include more than 20 products, such as air-filled cushion face masks, breathing circuits, blood pressure cuffs and temperature monitoring probes. In marketing the General Anesthesia System kits, the Company's sales representatives use detailed questionnaires to assist in determining the particular products the hospital desires in its anesthesia kits. The Company then manufactures a General Anesthesia System kit to meet the hospital's specific needs.

Thermadrape(R) Heat Retentive and Insulating Drape is a patented heat retentive surgical covering designed to be a safe, effective and affordable alternative to the active warming blanket. The Thermadrape(R) drape minimizes perioperative heat loss and allows patients to avoid (i) the increased metabolic rate and oxygen uptake associate with post-operative shivering, (ii) vasoconstriction, (iii) delayed drug clearance and other side effects of "cold stress" and (iv) needless discomfort. Configurations include blankets, head covers, leggings and wraps. Sizes range from pediatric to adult.

Temp Probe(TM) Temperature Probes. The Company offers a variety of temperature probes (esophageal, tympanic, skin and general purpose) to monitor patients undergoing anesthetic procedures. The Company has expanded its temperature line to accommodate the various physiological patient monitors found in hospitals. The Company's esophageal stethoscope monitors temperature, while also providing the clinician with the patient's heart and lung sounds. In 1995, the ESG(TM) esophageal stethoscope with gastric suction was introduced. This stethoscope adds a gastric suction function to the measurement of temperature and amplification of heart and lung sounds.

Vital View(TM) Single-Patient Use Fiberoptic Laryngoscope System is designed to assist the anesthesiologist in correctly placing an endotracheal tube within the trachea of the patient. This system has several advantages over traditional metal blade laryngoscope systems, including lowering the risk to both the patient and physician of infection associated with reusable metal blades and handles. In addition, hospital capital outlays for stocking emergency crash carts can be reduced by purchasing the Vital View(TM) system rather than a reusable Fiberoptic system.

ParaGraph(R) Neuromuscular Blockade Monitor. The ParaGraph(R) neuromuscular blockade monitor and related ParaStim(TM) single-use sensor products provide a simple, accurate and cost-effective means of assessing the level of neuromuscular blockade, a common procedure in anesthetic practice. The Company acquired rights with respect to these patented products during Fiscal 1993 and began sale of these products during Fiscal 1994.

The Vital Pak(TM) Procedural Delivery System bundles together all of the anesthesia supplies used in a specific procedure (for example, coronary artery bypass grafts) including complementary products manufactured by others, for example sterile pulmonary artery catheter kits. The Company sources these products directly from the manufacturer for the Vital Pak. Each hospital customizes the contents of the Vital Pak(TM) system to match their patient care needs and protocols. This standardization enables the hospital to develop highly efficient processes for utilization and patient charge accounting.

Respiratory and Critical Care Products:

Manual Resuscitator Products. Manual resuscitators are ventilation devices which are squeezed by hand to force oxygen into a patient's lungs. They are used

throughout the hospital in a variety of settings. For example, patients on a ventilator require the use of a resuscitator prior to tracheal suctioning procedures. Another use is in providing oxygen while transporting the patient between the operating room and other critical care units. In addition, resuscitators are typically placed strategically throughout the hospital to provide assistance to patients who have stopped breathing and require resuscitation.

The Company was the first to offer single-patient use manual resuscitators. The Company's CODE BLUE(TM) and VITAL BLUE(TM) resuscitators are used in emergency situations and in a variety of medical procedures. CODE BLUE(TM) resuscitators are sold in different sizes for infants, children and adults. Both resuscitators alleviate certain problems involved in mouth-to-mouth emergency resuscitation, including the risk to both the rescuer and the individual of transmitting infections. Most reusable manual resuscitators are costly to sterilize and difficult to fully reassemble. In contrast, CODE BLUE(TM) and VITAL BLUE(TM) resuscitators are relatively inexpensive, and already fully assembled. The Company also offers a specialized line of infant resuscitation products (BabySafe(TM), PediBlue(TM) and BabyBlue(TM) resuscitators) used in labor and delivery rooms and in neonatal intensive care units, where controlling the spread of infection is particularly critical. BabySafe(TM) resuscitators offer the ability to adjust and limit the level of pressure that can be delivered during resuscitation. Oxygen can be delivered without the risk of barotrauma. Baby Safe(TM), PediBlue(TM) and BabyBlue(TM) resuscitators are available in a variety of configurations and sizes to meet the needs of infants and children.

CleenCuff(TM), Flufficuff(TM), and CUFF-ABLE(R) Blood Pressure Cuffs. The Company manufactures and sells single-patient use blood pressure cuffs which provide hospitals with an alternative to traditional reusable blood pressure cuffs that can become contaminated with blood and other body fluids. While all patients admitted to hospitals are candidates for their own dedicated blood pressure cuff, the Company believes that to date the primary market for disposable cuffs has been for cases where infection control is a high priority. The Company's cuffs are sold in a variety of sizes (including neonatal) and are adaptable to all manual and electronic blood pressure monitors that utilize blood pressure cuffs.

ACTAR(R) and INFANTRY(R) CPR Training Manikins. The Company manufactures a product line of patented cardiopulmonary resuscitation ("CPR") training manikins. ACTAR(R) manikins are made from four basic components--a head, chest plate, compression piston and disposable lung. The Company also sells the INFANTRY(R) infant-size CPR training manikins. While maintaining the necessary features and anatomical landmarks for CPR practices, ACTAR(R) and INFANTRY(R) manikins are far smaller and less expensive than the full size manikins typically used for CPR training. The smaller size and affordable pricing enable each person in a CPR training class to practice with his or her own manikin rather than sharing a single demonstration model.

Continuous Positive Airway Pressure ("CPAP") Systems. The Company's face mask CPAP systems provide a less invasive and more comfortable way of providing oxygen to certain patients than conventional ventilator-based systems. The Company's face mask CPAP systems eliminate the need to insert an endotracheal tube into the patient's trachea and attach the patient to a ventilator. The Company believes that its CPAP systems generally represent a significant advance in the treatment of Adult Respiratory Distress Syndrome (ARDS) and have been found to be clinically effective in the treatment of certain traumatic chest injuries and postoperative atelectasis (collapse of the air sacs in the lungs and other disease states). The system consists of a compact flow generator connected to a dual-valved, air-filled cushion face mask. The face mask is attached to a single-patient use PEEP (positive end expiratory pressure) valve designed to maintain positive airway pressure in the lung, thus allowing for more oxygen to diffuse into the patient's blood system.

HCH(TM) Heat and Moisture Exchangers are designed to ensure proper humidification and reduce heat loss for patients either during anesthesia or while attached to mechanical ventilators. These products also eliminate the problems associated with heated humidifiers and heated wire systems which can be hazardous to patients by overheating and causing burns to the respiratory system. Single-patient use heat and moisture exchangers also reduce the risk of infection associated with reusable heated humidifiers.

Broselow/Hinkle(TM) Pediatric Emergency System. The Broselow/Hinkle(TM)

pediatric emergency system is the product of extensive clinical efforts by Dr. James Broselow and Dr. Alan Hinkle which takes advantage of the direct correlation between a pediatric patient's body length and the proper size of emergency supplies and correct drug dosages. This patented system, licensed to the Company, consists of: a tape measure having seven color zones, a corresponding series of color-coded single-patient use emergency kits or modules and a nylon organizer bag custom-designed to hold all the supplies needed in either a trauma, cardiac or respiratory pediatric emergency. With this system, emergency room and EMS personnel can be confident that all the supplies necessary to manage a pediatric emergency are readily identified, available and organized in a manner that minimizes reaction time. The Broselow/Hinkle(TM) pediatric emergency system may also be sold by the Company in the pediatrician office market.

Kurtis MSD(TM) Meconium Suction Device. The Kurtis MSD(TM) meconium suction device was developed by a practicing neonatologist, Peter Kurtis, M.D.. When an infant shows signs of having aspirated meconium, the device provides rapid, controlled intubation and meconium suctioning of newborns in the delivery room. The Kurtis MSD(TM) meconium suction device combines three (3) devices which are normally used in the procedure and, therefore, makes the procedure less cumbersome.

Misty Ox(R) Respiratory Products. The MistyOx (R) line consists of three respiratory product lines that deliver hydration to a patient. The first is a pre-filled bubble humidifier to deliver low flow and low concentration of oxygen to patients, the second is a nebulizer to deliver medium to high flow and high concentrations of oxygen to patients, and the third is the addition of a regulated heater to the nebulizer. These products may be used on infants, children and adults in many areas of the hospital, including emergency, recovery and critical care.

Isocath(TM). In October 1996, the Company introduced its Isocath(TM) closed suction system, designed for hospital patients on a ventilator. Isocath(TM) is used when an endotracheal tube is inserted in a patient located in the intensive care setting of a hospital. Additionally, suctioning, one of the most common procedures in intensive care, is performed to keep the patient's lungs free of secretions. Isocath(TM) allows the suction catheter to be advanced into the endotracheal tube without disconnecting the patient from the ventilator. Isocath was designed with an "isolation" chamber to isolate the catheter from the patient's airway while permitting cleaning of the catheter without inadvertently lavaging the patient.

Vasceze(TM). In October 1996, the Company introduced a needleless, disposable, pre-filled vascular catheter flush device used with IV sets in the home care and hospital market. Vasceze(TM) is a one piece design manufactured using the "blow-fill-seal" process. Vasceze(TM) is filled with either sodium chloride or heparin solutions. The product is uniquely designed to deliver a flush solution at pressures less than that of 10.cc syringes and other flush devices.

Services

HealthStar Pharmaceutical Services, Inc. ("HealthStar") was acquired in January 1996. HealthStar's principal focus is utilization of the Company's expertise in blow-fill-seal technology for contract packaging customers that need sterile packaging (primarily pharmaceutical and medical device manufacturers). HealthStar can also build blow-fill-seal machines for sale to customers that desire to manufacture in their own plants.

The Validation Group provides consulting services to companies engaged in the manufacture of medical devices and pharmaceuticals, mainly in the area of compliance with regulations promulgated by the Food and Drug Administration ("FDA").

Market Data

The following table sets forth, for each of the past three fiscal years, the dollar amount and approximate percentage of net sales--continuing product lines represented by the Company's anesthesia products, respiratory and critical care products, and other products.

<TABLE>
<CAPTION>

Year Ended September 30,						
1994		1995		1996		
Amount	%	Amount	%	Amount	%	
(Dollars in Millions)						
<S>	<C>	<C>	<C>	<C>	<C>	

Anesthesia	\$ 49.9	60.2	\$ 54.1	61.7	\$ 56.4	62.7
Respiratory and Critical Care	32.8	39.6	33.6	38.3	31.7	35.3
Services / Other	.2	.2	.0	.0	1.8	2.0
	-----	-----	-----	-----	-----	-----
Total	\$ 82.9	100.0%	\$ 87.7	100.0%	\$ 89.9	100.0%
	=====	=====	=====	=====	=====	=====

</TABLE>

Sales, Marketing and Customers

Historically, the Company's strategy has been to sell its anesthesia and respiratory products to hospitals in the United States through its own sales force and third-party distributors. Given the increased use of national supply distributors by hospitals over the last few years, the Company's sales through these national distributors, such as Baxter and Owens & Minor, have increased to 36% of sales--continuing product lines for Fiscal 1996. The Company's sales force participates with these national distributors in making sales to the hospital. The Company believes this strategy provides it with an advantage over many of its competitors, including competitors who have larger sales forces but whose salespersons do not focus solely upon anesthesia and respiratory products. Vital Signs' sales force, which focuses primarily upon anesthesia and respiratory products, consisted of 84 salespersons in the United States and 18 salespersons internationally at October 1, 1996.

The Company utilizes an independent distributor for its Actar(R) CPR training manikins and other pre-hospital and emergency care products. The Company has begun to allocate resources to the development of a distributor network for the home care market.

As new products are developed which can be sold by the Company's sales force, management educates and trains the sales force in the need, use, application and advantages of the Company's products. The Company also holds quarterly training sessions for all salespersons and conducts additional training as it deems appropriate.

The Company's marketing staff, which works closely with its sales force, collects and analyzes customer responses to new and existing products, participates in the Company's product development program and assists in product training. In addition, the Company's marketing staff develops and helps implement various internal and external promotional activities.

As have other providers within the medical and healthcare industries, the Company has been confronted with the rising purchasing power of buying groups such as Premier Purchasing Partners, Tenet, Columbia Healthcare and others. While the Company has been successful in signing an agreement with Premier for a broad range of anesthesia products, no assurances can be given of the Company's ability to secure other contracts. The buying power exerted by these entities will have a negative impact on the Company's margins. Industry wide estimates are that such buying groups will continue to exert their power to decrease prices.

On November 18, 1996, the Company announced it won a dual source supply agreement with Premier Purchasing Partners LP ("Premier") covering a broad range of anesthesia products, including breathing circuits and face masks. Premier is the largest healthcare buying group in the United States. As part of Premier's group purchasing commitment program, the agreement features savings for Premier hospitals and systems which agree to buy 90 percent of the products covered by the agreement from Vital Signs or one other supplier. Pricing for the five-year agreement is effective February 1, 1997.

International Operations

For the year ended September 30, 1996, international sales accounted for approximately 8% of net sales--continuing product lines, as compared with approximately 5% during 1995 and approximately 3% during 1994.

Historically, the Company has sold its products in European and other international markets through distributors. However, approximately three years ago the Company sought expansion in Europe by establishing direct sales organizations in the United Kingdom and Germany. In November 1995, the German operations were closed and the sales force was replaced by a distributor.

In November 1995, the Company announced an exclusive three-year agreement with the Baxter Respiratory Therapy division of Baxter Europe to distribute the Company's anesthesia, respiratory and critical care products in France, Ireland, Belgium, Holland, Spain and Portugal where Baxter has a significant direct sales force. Under the agreement, the Company's UK subsidiary will serve as the exclusive distributor of certain of Baxter's respiratory products in Britain where the Company's UK subsidiary maintains a direct sales organization.

Beginning in August 1995, Mediziv, a subsidiary of the company located in Israel, assumed responsibility for certain of the assembly and logistics requirements for the Company's European operations. In September 1996 the operations of Mediziv were refocused by discontinuing the manufacture of certain product lines and concentrating on manufacturing Vital Signs' products for the International market.

In January 1996, the Company opened a sales office in Beijing to support sales development in the Peoples Republic of China and Hong Kong through distributors. The Company's sales in China for fiscal 1996 are not significant.

In September 1996, the Company announced the execution of agreements with Teva Medical, Ltd., a subsidiary of Teva Pharmaceuticals, a leading Israeli provider of healthcare products. Teva Medical will be the Company's exclusive distributor in Israel, Egypt and Jordan and will manufacture certain of the Company's products. The Company will also distribute certain of Teva's products in the United States and United Kingdom.

It is the Company's intention to augment the international sales effort through strategic alliances wherever possible, although no assurance can be made that any such alliances can be completed.

Research and Development

The Company regards the element of innovation in its product lines to be an essential part of its overall strategy. The principal focus of the Company's research and development effort is to develop product solutions to problems experienced by health care professionals. The Company's principal development activities are directed toward expanding clinical applications of the Company's existing products, resulting in improvements to the anesthesia products (such as the face mask, breathing circuits and anesthesia kits) where the Company maintains a substantial market position. Moreover, the internal R&D staff maintains collaborative relationships with external professionals.

During Fiscal 1996 the Company's principal R & D focus was on two new product opportunities. Both products were launched in October 1996. The first product, a flush device for vascular access catheters (Vasceze(TM)), will be utilized in both the hospital setting and in the rapidly expanding homecare field. In December 1995, the Company received 510k clearance by the FDA to market this new device for both saline and heparin applications. Manufacturing of Vasceze(TM) is being performed in Germany and was in full production by the end of December, 1996.

The other addition to the Company's products is the Isocath(TM) closed suction system designed for use on ventilated patients. The Isocath(TM) system has already received FDA 510k clearance for marketing the system in the United States. The single-use system reduces the risk of infection for both patient and care giver. Although initial marketing of Isocath(TM) started in October, 1996, full production is planned for January, 1997. The Company's statement regarding its plans for full production constitutes a forward-looking statement under the Reform Act. Actual commencement of full production could be delayed substantially beyond January 1997 as a result of unanticipated difficulties in the manufacturing process.

The Company expects to continue to rely in part on its internal staff and in part on outside professionals to perform research and development on anesthesia and respiratory products. The Company's research and development expenses aggregated approximately \$4,493,000, \$3,865,000 and \$3,595,000 respectively, for Fiscal 1994, 1995 and 1996.

Medical Advisor

The Company has retained the services of Bernard Wetchler, M.D., as the Company's Medical Director in order to provide the Company with medical expertise in all facets of the delivery of anesthesia services. Dr. Wetchler is Clinical Professor of Anesthesiology at the University of Illinois College of Medicine, as well as Chair, Executive Committee, World Federation of Societies of Anesthesiologists; past President of the American Society for Ambulatory Anesthesia; and past President, Illinois Society of Anesthesiologists.

EchoCath, Inc.

The Company owns a minority interest in EchoCath, Inc., ("EchoCath"), a publically held corporation organized to develop, produce and sell certain catheter products that utilize ultrasound guided technology. Terence D. Wall, the Company's President and Chief Executive Officer, and Anthony J. Dimun, the Company's Chief Financial Officer, also own minority interests in EchoCath. The Company's interest in EchoCath is accounted for under the equity method through which the Company's entire investment has been charged to operations.

Product Liability Exposure

As with other health care product suppliers, the Company is exposed to potential product liability resulting from the use of the Company's products. The Company presently carries product liability insurance coverage which generally protects the Company against claims of bodily injury or property damage arising out of any products manufactured, sold or distributed by the Company. If a product liability suit were filed and a judgment entered against the Company or the Company entered into a settlement agreement, the business, results of operations and financial condition of the Company could be materially adversely affected if such judgment or settlement exceeded the limits of the Company's coverage.

There can be no assurance that the Company's insurance will be sufficient to cover product liability claims that could arise or that such coverage will remain available to the Company on satisfactory terms, if at all.

Manufacturing and Quality Control

General

The Company's facilities in Totowa, New Jersey; Burnsville, Minnesota; Malvern, Pennsylvania; Orange, California; Riviera Beach, Florida; Barkan, Israel and Kuala Lumpur, Malaysia are the principal manufacturing locations for certain of the Company's products, including anesthesia breathing circuits, filters, blood pressure cuffs, infusables, manual resuscitators and catheters, and are utilized for the assembly, testing and packaging of many of its products. Plastic components incorporated in certain products are molded to the Company's specifications by outside custom injection molders who utilize molds that are designed and, in most instances, owned by the Company. The Company's suppliers typically are presented with written specifications to assure that components are manufactured in conformity with the Company's design.

Given the ultimate use of many of the Company's products within the operating room and critical care units of hospitals, the Company conducts quality control testing in its various facilities. Substantially all such testing is subject to governmental regulation. Pursuant to United States Food and Drug Administration ("FDA") regulations, the Company is required to maintain records of all raw materials received, tested and used in the manufacturing process. See "Regulation."

Re-engineering Efforts

During Fiscal 1994, 1995 and 1996, in light of the cost sensitive environment resulting from various health care reform proposals, the Company implemented productivity improvement programs with the help of an independent consultant. This program resulted in cost efficiencies in manufacturing, administration and other operating functions with a reduction in the Company's work force by approximately ten percent. The management of the Company continues to monitor and challenge processes and costs across its operations with the objective of continuous cost reduction/productivity improvement.

Significant Suppliers

In 1980, the Company acquired the rights to its air-filled cushion face mask--the Company's highest volume product--through a collaboration arrangement with Respironics, Inc. ("Respironics"). The Company purchases its face masks from Respironics, a single source which manufactures the face mask from sites in Hong Kong and the People's Republic of China. The Company's supply agreement with Respironics requires Respironics to supply air-filled, cushion face masks of various specifications to the Company on an exclusive basis for anesthesia purposes, and obligates the Company to purchase all of its anesthesia face masks from Respironics as long as Respironics is the low cost supplier. The Company has had a series of supply agreements with Respironics since June 1980; the current supply agreement will govern the supply of anesthesia face masks by Respironics to the Company through June 1997. Discussions are ongoing concerning the extension of this agreement.

If the supply of face masks from Respironics should be interrupted or cease for any reason, the Company would seek to find alternative developers and

suppliers of face masks. In such event, the Company would experience disruption in its business. No assurance can be given that, in the event of such an interruption or cessation, the Company could, in fact, maintain its required supply of face masks in a quantity and at a cost that would not have a material adverse effect on the business and operating results of the Company. The Company's policy is to maintain a sufficient stock of face masks to lessen the impact of any temporary production or supply disruption. The Company's agreement with Respirationics provides certain protections to the Company with respect to molds utilized by Respirationics.

The Company's new Vasceze(TM) product is manufactured in Germany. Because of the complicated manufacturing process involved, a disruption in the manufacturing procedure would impact the Company's abilities to fill orders for Vasceze(TM) in the short term. For substantially all other products, the Company believes that alternative sources of supply are available for such components and that the loss of any such supplier would not have a material adverse effect upon the Company's financial condition.

Sales Backlog

The Company does not believe that backlog is a meaningful measure of its business, since its objective is to ship all orders within relatively short time frames.

Competition

The principal competitive factors in the Company's markets include innovative product design, product quality, established customer relationships, name recognition, distribution and price. The Company believes that its products compete favorably with respect to these factors, although certain of the Company's competitors may have greater financial and marketing resources or broader product lines.

The Company's competitive environment can be characterized as fragmented, often with as many as twelve different companies competing with regard to a specific product. As a result, the Company's competition varies from product to product. The Company's primary competitors include Intertech Resources Inc., a subsidiary of Smith Industries (face masks, breathing circuits, resuscitators and anesthesia kits), Baxter International Inc., (breathing circuits and anesthesia kits), King Systems (face masks and anesthesia circuits), Stat Labs (pressure infusers) and Critikon (blood pressure cuffs). The Company's newly introduced Vasceze product faces competition from Solopak, Sanofi-Winthrop and Wyeth/Ayerst, who provide pre-filled syringe catheter devices. The primary competitors for the Company's Isocath product are Ballard Medical and Smith Industries.

Regulation

As a manufacturer of medical devices, the Company is subject to regulation by, among other governmental entities, the FDA and the corresponding agencies of the states and foreign countries in which the Company sells its products. The Company must comply with a variety of regulations, including the Current Good Manufacturing Practice ("CGMP") regulations of the FDA, and is subject to periodic inspections by the FDA and applicable state and foreign agencies. Enforcement of CGMP requirements has increased significantly in recent years, and the FDA has publicly stated that compliance would be more strictly scrutinized. If the FDA believes that its regulations have not been fulfilled, it may invoke extensive enforcement powers. Noncompliance with applicable requirements can result in, among other things, warning letters, fines, injunctions, civil penalties, recall or seizure of products, total or partial suspension of production, failure to receive premarket clearances or approvals, withdrawal of approvals and criminal prosecution. The FDA also has the authority to request repair, replacement or refund of the cost of any device manufactured or distributed by the Company.

Medical devices are classified by the FDA into three classes that determine the degree of regulatory control to which the manufacturer of the device is subject. In general, Class I devices involve compliance with CGMP requirements and are subject to other general controls including premarket notification (510k). Class II devices are subject to the same controls as Class I and also may be subject to specific controls (e.g., performance standards, postmarket surveillance, patient registries and FDA guidelines) and are subject to pre-market notification (510k). Class III devices are those devices for which pre-market approval ("PMA") (as distinct from pre-market notification) is required before commercial marketing to assure the products' safety and effectiveness.

To date, all of the Company's products are classified as either Class I or Class II. Many new medical devices and some modifications to existing medical devices, including most of the Company's products, are subject to a pre-market notification process pursuant to Section 510(k) of the Federal Food, Drug and Cosmetic Act. Further, current FDA enforcement policy prohibits the marketing of approved or cleared medical devices for unapproved or uncleared uses. Products which do not receive clearance through the FDA's 510(k) notification process are subject to much lengthier and more complex pre-marketing approval ("PMA") procedures.

No assurance can be given that the FDA or foreign regulatory agencies will give on a timely basis, if at all, the requisite clearances or approvals for any of the Company's medical devices which are under development. Moreover, after clearance or approval is given, these agencies may have the power to withdraw clearances or approvals or require the Company to change the device or its manufacturing process or labeling, to supply additional proof of its safety and effectiveness or to recall, repair, replace or refund the cost of the medical device, if it is shown to be hazardous or defective. The process of obtaining clearances or approvals to market products can be costly and time consuming and can delay the marketing and sale of the Company's products.

The FDA has recently finalized changes to its CGMP regulations, including design controls, which will likely increase the cost of compliance with CGMP requirements. Federal, state and foreign regulations regarding the manufacture and sale of medical devices are subject to additional change. In the future, the Company cannot predict what impact, if any, such changes might have on its business.

Over the past several years, the public and the federal government have focused considerable attention on reforming the health care system in the United States. The Clinton Administration pledged to bring about a reform of the nation's health care system and, in September 1993, President Clinton outlined the Clinton Administration's plan for health care reform. Included in the proposal were calls to control or reduce public and private spending on health care, to reform the payment methodology for health care goods and services by both the public (Medicare and Medicaid) and private sectors, which could include overall limitations on federal spending for health care benefits, and to provide universal access to health care. While the political climate appears to have changed with respect to sweeping health care reform, health care reforms on an issue by issue basis have been reported to be a focus in the new Clinton Presidential term, and such reforms may ultimately be enacted. No assurance can be given that any such reforms will not have a material adverse effect on the Company. Any such effect may be magnified by the advent of "managed care," which may render sales to hospitals more cost sensitive and which has already had an impact within the medical industry and related fields.

The Company is also subject to numerous federal, state and local laws relating to such matters as safe working conditions, environmental protection and fire hazard control. There can be no assurance that the Company will not be required to incur significant expenses to comply with such laws and regulations in the future.

Patents

While the Company possesses certain patents, has filed certain patent applications and has increased its efforts to acquire and develop patented products, the Company believes that the ownership of patents is not critical to its ability to compete with respect to most of the products in its product line. The Company has, however, pursued patent protection when in the reasonable judgement of management such efforts may tend to provide the Company with competitive advantages.

Employees

At September 30, 1996, the Company had 647 full-time employees and 11 part-time employees. The Company believes that its relations with its employees are satisfactory.

Item 2. Properties

The Company's executive offices, principal manufacturing plant and principal warehouse facilities are located in Totowa, New Jersey. These facilities, consisting of approximately 154,000 square feet, are owned by the

Company. The Company's other substantial facilities -- approximately 35,000 square feet in Burnsville, Minnesota; 14,348 square feet in Malvern, Pennsylvania; 39,600 square feet in Riviera Beach, Florida; 17,756 square feet in Orange, California and 17,690 square feet in Barkan, Israel are leased by the Company. The Company also leases office, assembly and warehouse space in England and Malaysia.

Item 3. Legal Proceedings

In September 1994, two separate complaints were filed against the Company (one in U.S. District Court for the Northern District of Illinois and the other in U.S. District Court for the Western District of Louisiana), each of which allege patent infringement with respect to certain of the Company's resuscitator products and seek money damages and injunctive relief. The Louisiana matter was withdrawn by the plaintiff and the suit was dismissed in 1996. In the Illinois action discovery will close shortly and the matter will be placed on the court's trial calendar awaiting a trial date. The Company denies the material allegations of the Illinois complaint and intends to vigorously defend this matter.

The Company is involved in other legal proceedings arising in the ordinary course of business. The Company cannot predict the outcome of all of its legal proceedings with certainty. However, based upon its review of pending legal proceedings, the Company does not believe that its pending legal proceedings are material to its financial condition, its results of operations or its liquidity. Predictions regarding the impact of pending legal proceedings constitute forward-looking statements under the Reform Act. The actual impact of such proceedings could differ materially from the impact anticipated, primarily as a result of uncertainties involved in the proof of facts in legal proceedings.

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

Not applicable.

Item 4A. Executive Officers of the Registrant

The Company's executive officers are as follows:

Name	Age*	Positions with the Company
Terence D. Wall	55	President, Chief Executive Officer and Director
Anthony J. Dimun	53	Executive Vice President, Chief Financial Officer, Treasurer, Secretary and Director
Dennis Fenstermaker	50	Vice President - Manufacturing and General Manager
Barry Wicker	56	Executive Vice President - Sales and Marketing, and Director

* As of September 30, 1996.

Terence D. Wall founded the Company in 1972 and has been President, Chief Executive Officer and a director of the Company since that time. He has also invested in and serves on the Board of Directors of EchoCath and certain health care businesses, including Sonokinetics Corp., a manufacturer of an ultrasonic orthopedic cement removal device ("Sonokinetics"), Bionix Inc., a manufacturer of biosorbable medical devices for orthopedic and other applications ("Bionix"), and Exogen, a manufacturer of an ultrasonic bone healing device. Prior to founding the Company, he held various sales and marketing positions with The Foregger Co. (a manufacturer of anesthesia products and a division of Air Products and Chemicals, Inc.), the medical division of Westinghouse Corporation and the medical division of American Optical Corporation. He received a Bachelor of Science degree in 1963 from the University of Maryland and a Master of Business Administration degree from Pace University in 1975. For the foreseeable future, the Company will remain dependent upon the efforts of Mr. Wall. The Company does not maintain key man life insurance on Mr. Wall's life.

Anthony J. Dimun, a certified public accountant, has been a director of the Company since August 1987. On March 1, 1991, Mr. Dimun became an Executive Vice President and the Chief Financial Officer of the Company and on December 1, 1991 he became the Secretary and Treasurer of the Company. Mr. Dimun is also a shareholder and Board member of EchoCath and Bionix. From July 1989 through February 1991, he served as Senior Vice President of First Atlantic Capital Ltd., a United States affiliate of an international merchant banking group. From August 1987 until December 1987, he served as Executive Vice President, Chief Financial Officer and Treasurer of the Company. From 1978 until August 1987, he

was a partner in the accounting firm of Goldstein Golub Kessler & Company, P.C., which has examined the Company's financial statements for more than the past five years. He served as a senior audit manager with Ernst & Whinney (a predecessor of Ernst & Young) prior to joining Goldstein Golub Kessler & Company, P.C. in 1976. He received a Bachelor of Science degree from Rider University in 1965.

Dennis Fenstermaker joined the Company in June 1992 as Director of Manufacturing and became Vice President - Manufacturing and General Manager in

October 1993. Prior to joining the Company, he held various manufacturing and engineering management positions with Sterling Drug Inc. (a pharmaceutical manufacturer and distributor) for more than ten years, including Director of Engineering Services and Plant Manager, and with Johnson & Johnson (a manufacturer and distributor of health care products) for more than ten years. Mr. Fenstermaker earned a Bachelor of Science degree in Commerce and Engineering Sciences from Drexel University in 1969 and a Master of Business Administration degree from Rider University in 1973.

Barry Wicker has served as a director and an Executive Vice President of the Company since 1985 (with primary responsibility for sales and marketing). Mr. Wicker joined the Company in 1978 as National Sales Manager and became Vice President - Sales in 1981. Prior to joining the Company, he held various marketing and sales positions with The Foregger Co. over a 20 year period.

Each of the Company's executive officers serves as such at the pleasure of the Board.

PART II

Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters

The Company's Common Stock (the "Common Stock") is traded in the over-the-counter market and quoted on the National Market System of the National Association of Securities Dealers Automated Quotation System ("NASDAQ"). The following table sets forth the high and low closing sales prices of the Common Stock on the NASDAQ National Market System, and the cash dividends declared per share of Common Stock, for the periods indicated:

<TABLE>
<CAPTION>

	High ----	Low ---	Dividend Per Share -----
<S>	<C>	<C>	<C>
Fiscal Year Ended September 30, 1995:			
Quarter ended December 31, 1994	\$11-7/8	\$10-1/8	\$.02
Quarter ended March 31, 1995	14-1/4	10-7/8	.02
Quarter ended June 30, 1995	17-1/4	13	.02
Quarter ended September 30, 1995	22-3/4	16-1/8	.03
Fiscal Year Ended September 30, 1996:			
Quarter ended December 31, 1995	\$26-3/8	\$ 17-3/8	\$.03
Quarter ended March 31, 1996	31-5/8	23-5/8	.03
Quarter ended June 30, 1996	25-1/2	18-1/2	.03
Quarter ended September 30, 1996	23-1/2	18-3/4	.03

</TABLE>

As of September 30, 1996, there were approximately 475 holders of record of the Common Stock.

During Fiscal 1996, the Company declared and paid cash dividends of \$0.12 per share. Payment of cash dividends in the future will depend upon the financial condition, capital requirements, loan agreement restrictions and earnings of the Company, as well as such other factors as the Board of Directors may deem relevant.

Item 6. Selected Financial Data

The following selected consolidated financial data have been derived from the Company's audited consolidated financial statements. The information below should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K.

Certain acquisitions occurring on or before September 30, 1996, including HealthStar Pharmaceutical Services, Inc. (acquired in January 1996), Misty Ox (acquired in December 1995), Coast Medical, Inc. (acquired in October, 1995), Mediziv Medical Products, Ltd. (acquired in July 1995), Actar Airforce, Inc. (acquired in June 1992), Thomas Medical Products, Inc. (acquired in September 1992), and O.R. Concepts, Inc. (acquired in November 1992), have been accounted for as purchases and, accordingly, are only reflected herein for dates and periods on and after the respective acquisition dates. See the Notes to the Consolidated Financial Statements.

<TABLE>
<CAPTION>

	Year Ended September 30,				
	1992	1993	1994	1995	1996
	(In thousands, except per share data)				
<S>	<C>	<C>	<C>	<C>	<C>
Income Statement Data:					
Net sales--continuing product lines	\$ 65,661	\$ 77,182	\$ 82,937	\$ 87,651	\$ 89,922
Net sales--product line disposed		2,696	2,187	1,902	808
Cost of goods sold	(27,019)	(34,247)	(37,594)	(38,279)	(38,418)
	-----	-----	-----	-----	-----
Gross profit	38,642	45,631	47,530	51,274	52,312
	-----	-----	-----	-----	-----
Operating expenses:					
Selling, general and administrative	20,463	23,685	27,317	23,629	23,491
Research and development	2,963	3,856	4,493	3,865	3,595
Interest income	(585)	(773)	(781)	(2,406)	(2,508)
Merger and litigation expenses	1,167				
Interest expense	611	640	555	382	346
Special charges			10,643		
Other (income) expense	(1,156)	(731)	(969)	162	(1,635)
Goodwill amortization		381	462	354	643
	-----	-----	-----	-----	-----
	23,463	27,058	41,720	25,986	23,932
	-----	-----	-----	-----	-----
Income before provision for income taxes	15,179	18,573	5,810	25,288	28,380
Provision for income taxes	4,776	5,899	4,132	9,154	9,591
	-----	-----	-----	-----	-----
Net income	\$ 10,403	\$ 12,674	\$ 1,678	\$ 16,134	\$ 18,789
	=====	=====	=====	=====	=====
Net income per share	\$.81	\$.98	\$.13	\$ 1.24	\$ 1.44
	=====	=====	=====	=====	=====
Dividends per share	\$	\$	\$.02	\$.09	\$.12
	=====	=====	=====	=====	=====
Weighted average number of shares outstanding	12,876	12,990	12,994	12,991	13,045
	=====	=====	=====	=====	=====

	September 30,				
	1992	1993	1994	1995	1996
	(In thousands)				
Balance Sheet Data:					
Working capital	\$ 45,529	\$ 46,869	\$ 50,409	\$ 32,885	\$ 44,820
Total assets	78,950	92,200	91,773	110,421	123,756
Long-term debt, excluding current installments	6,433	5,829	3,700	3,200	2,700
Total stockholders' equity	63,814	76,138	77,658	92,645	110,239

</TABLE>

1 The Company disposed of its endoscopic product line during Fiscal 1996, has reflected net sales of that product line as a separate line item in the table set forth above and has included in other (income) expense for Fiscal 1996 a \$174,000 gain on the sale of that product line. Expenses of that product line were not material to the Company's results of operations (other than expenses included in a special charge for Fiscal 1994). Accordingly, such

expenses are included within cost of goods sold and operating expenses in the table set forth above.

2 The reduction in working capital in Fiscal 1995 is primarily attributable to the acquisition of certain marketable securities which are not classified as current assets and the acquisition of Mediziv. See "Management's Discussion and Analysis of Financial Condition and Results of Operations".

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

Introduction

The Company disposed of its endoscopic product line during Fiscal 1996. See Item 6 of this Annual Report on Form 10-K. In its analysis of the Company's results of operations, management views net sales from continuing product lines (i.e., excluding the revenues derived from its endoscopic product line) as the relevant revenue base from which to make analytic comparisons. Since the expenses of the endoscopic product line were not material to the Company's results of operations (other than expenses included in a special charge for Fiscal 1994) and did not vary substantially prior to the discontinuation of that product line, management's analysis below includes within all line items other than sales the results of operations of both the Company's continuing product lines and the Company's discontinued endoscopic product line.

Results of Operations

The following table sets forth, for the periods indicated, the percentage increase or decrease of certain items included in the Company's consolidated statements of income.

	Increase (Decrease) from Previous Year (1)	
	Fiscal 1995 Compared with Fiscal 1994	Fiscal 1996 Compared with Fiscal 1995
	-----	-----
Net sales--continuing product lines	5.7%	2.6%
Cost of good sold	1.8	.4
Gross profit	7.9	2.0
Selling, general and administrative expenses	(13.5)	(.6)
Research and development expenses	(14.0)	(7.0)
Income before provision for income taxes	335.2	12.2
Provision for income taxes	121.5	4.8
Net income	861.5	16.5

(1) Percentage changes with respect to certain line items in the Company's consolidated statements of income have been omitted since they are not meaningful. The substantial changes from Fiscal 1994 to Fiscal 1995 in the last three line items above relate primarily to special charges taken during the fourth quarter of Fiscal 1994.

Fiscal 1996 Compared to Fiscal 1995 (See "Introduction")

Net sales--continuing product lines for the year ended September 30, 1996 increased by 2.6% compared with the same period last year. The increase was due primarily to an increase in unit sales and the acquisition of the Misty Ox(R) product line and HealthStar Pharmaceutical Services. Prices did not have a material effect on net sales during these periods.

Sales of anesthesia products (representing 62.7% of net sales -- continuing product lines), grew 4.3% from the year ended September 30, 1995 to the year ended September 30, 1996. Sales of critical care and respiratory products (representing 35.3% of net sales -- continuing product lines) decreased by 5.7%. Other products, accounting for 2.0% of net sales -- continuing product lines, increased by 100% from the comparable period in Fiscal 1995, reflecting the Company's acquisition of HealthStar Pharmaceutical Services.

Gross profit increased by 2% in absolute dollar amount, primarily due to the Company's re-engineering and cost reduction efforts offset by sales of certain products with gross margins below the Company's average gross margin, as

well as the sales price pressure that is evident within the cost conscious health care industry today. Such re-engineering efforts consisted of a revuew of material business processes with the goal of assuring that business objectives were being met on a cost-efficient basis.

Selling, general and administrative expenses decreased as a percentage of sales--continuing product lines from 27.0% of sales to 26.1% of sales. Total selling, general and administrative expenses decreased by .6%, as the result of the Company's re-engineering efforts, offset by increases in freight and sales costs to support international sales growth and the acquisitions of Coast Medical, Inc., and HealthStar Pharmaceutical Services.

Research and development (R&D) expenses decreased by approximately 7.0% in dollar volume, as the result of re-engineering. The Company continues to make a commitment to new product development as evidenced by its recent announcement of two new products (a single-use flush device and a single-use closed suction catheter). See "Business-Research and Development".

Other income/expense primarily includes dividend income earned on investments, gain on the sales of cash investments and the gain on sale of the Company's O.R. Concepts' endoscopic product line, offset by charitable contributions of inventory. In addition, during the fourth quarter the Company recognized other income of \$1,000,000 relating to the sale of its interest in Cardiologics, L.L.C., a joint venture engaged in the early stage development of cardiovascular products. The sale, made to a related party, was completed in order to enable the Company to focus its efforts upon its core product lines, anesthesia and critical care.

The Company's effective tax rates were 33.8% and 36.2% for Fiscal 1996 and 1995, respectively. The 1996 rate was less than the combined Federal and State statutory rates primarily as a result of the utilization of capital loss carry forwards.

On November 18, 1996, the Company announced it won a dual source supply agreement with Premier Purchasing Partners LP ("Premier"), an affiliate of the largest healthcare purchasing group in the United States (see page 9). This agreement covers a variety of anesthesia products and provides for favorable pricing in exchange for committed purchasing volume (90%) of usage from the member hospitals. The agreement covers a five year term and begins February 1, 1997. Based on current membership data, management anticipates that the effect on operating income and gross margin contribution (dollars) will not be dilutive in spite of lower pricing and gross margin percentages. This statement constitutes a forward-looking statement under the Reform Act. The effects of the contract could differ materially from these estimates as the contract is implemented, if the volume of purchases is less than anticipated, if the Company is required to incur unanticipated selling expenses or if the product mix purchased does not result in anticipated manufacturing efficiencies.

Fiscal 1995 Compared to Fiscal 1994 (see "Introduction")

Net sales--continuing product lines for the year ended September 30, 1995 increased by 5.7% compared with the same period last year. The increase was due primarily to an increase in unit sales and the introduction of certain new products. Prices did not have a material effect on net sales during these periods.

Sales of anesthesia products (representing 61.7% of net sales -- continuing product lines) grew 8.4% from the year ended September 30, 1994 to the year ended September 30, 1995. Sales of critical care and respiratory products (representing 38.3% of net sales -- continuing product lines) increased by 2.4%.

Gross profit increased by 7.9% in absolute dollar amount, primarily due to the Company's re-engineering and cost reduction efforts commenced in the fourth quarter of Fiscal 1994.

Selling, general and administrative expenses decreased as a percentage of sales--continuing product lines from 32.9% of sales to 27.0% of sales. Total selling, general and administrative expenses decreased by 13.5%, largely attributable to direct sales force reductions in Germany and O.R. Concepts as the Company moved from direct sales to sales through dealers. The Company also commenced (in Fiscal 1994) a broad-based re-engineering process in its operating areas which accounted for a large portion of the reduction in such expenses.

Research and development (R&D) expenses decreased by 14.0% in dollar volume, primarily due to reduced activity in O.R. Concepts due to the anticipated future sale of that business. On a percentage of sales -- continuing product lines basis, these expenses decreased by 1%.

Other income/expense primarily includes dividend income earned on

investments, offset by charitable contributions of inventory. Dividend income in Fiscal 1995 decreased by \$1.4 million, primarily due to a shift to interest bearing investments.

Net earnings for both the September 1994 fourth quarter and year end were impacted by special charges in the fourth quarter which aggregated \$10,643,000 before tax. These special charges included the following:

(i) German Operations. The Company's activities in Germany through September 30, 1994 consisted of a direct sales force of seven persons and an administrative, distribution and assembly facility that serviced local German customers and distributors throughout Europe. Through September 30, 1994, costs associated with such efforts were disproportionate to anticipated revenues. A decision was made to restructure the manner in which the Company's German operations function both as to marketing and distribution. This decision resulted in a special charge to operations of \$1.3 million.

(ii) O.R. Concepts. Sales and operating results of the Company's O.R.C. subsidiary have been disappointing since the acquisition in Fiscal 1993. Accordingly, in the fourth quarter, a decision was made to write down a portion of the goodwill initially recognized with respect to this acquisition and to record reserves relating to severance costs and other aspects of O.R.C.'s reduced operations. The total fourth quarter special charges relating to O.R.C. was \$3.9 million.

(iii) Cost Reduction Program. During Fiscal 1994, the Company implemented a program to reduce costs and improve operating efficiencies. The fourth quarter special charges include \$0.9 million attributable to (i) fees paid to a consultant for recommendations made relating to the Company's manufacturing, administrative and other internal functions and (ii) associated severance costs.

(iv) Investment Portfolio Losses. During the fourth quarter of fiscal 1994, the Board of Directors revised its investment strategies and retained three consultants to manage the Company's marketable securities. As a result of these actions, the Company was required to recognize losses of \$3.0 million, reflecting declines in the market value of certain debt securities (none of which were derivative securities) held by the Company.

(v) Other. The Company made other reevaluations, relating to various assets and liabilities on its balance sheet, which resulted in aggregate special charges of \$1.6 million.

The Company's effective tax rates were 36.2% and 71.1% for Fiscal 1995 and 1994, respectively. The 1995 rate was less than the combined Federal and State statutory rates primarily as a result of the utilization of capital loss carry forwards, R & D and other tax credits and a reduced tax rate on capital gains and dividend income.

Liquidity and Capital Resources

The Company continues to rely upon cash flow from its operations (which produced \$15.7 million of cash in fiscal 1996) as well as the funds generated from its initial and second public offerings and certain bank borrowings. The combined net carrying value of marketable securities, cash and cash equivalents and long-term marketable securities was approximately \$46,536,000 at September 30, 1996, an increase of \$1,520,000 over the prior year. The increase resulted primarily from the sale of the O.R. Concepts endoscopic product line and cash from operations, offset by acquisitions of property, plant and equipment, dividend payments, principal payments on the Company's long-term debt and the acquisitions of Coast Medical, Inc., HealthStar Pharmaceutical Services, Inc., and the Misty Ox product line.

At September 30, 1996, the Company had working capital of \$44.8 million and its current ratio was 6.1 to 1, as compared to \$32.9 million and 3.6 to 1 at September 30, 1995. The Company continues to maintain a substantial working capital position. Its current policy is to retain such working capital and earnings for use in its business, subject to the payment of certain cash dividends. Such funds may be used for product development, product acquisitions and business acquisitions, among other things. The Company regularly evaluates and negotiates with domestic and foreign medical device companies regarding potential business or product line acquisitions or licensing arrangements by the Company.

The Company has a \$10 million line of credit with Chase Manhattan Bank ("Chase"). Chase has also expressed its intention to provide additional funds for the Company's future acquisitions, provided that each such acquisition meets certain criteria. The terms for any borrowing would be negotiated at the date of origination.

Management believes that the funds generated from operations, along with the Company's current working capital position and bank credit, will be sufficient to satisfy the Company's capital requirements for the foreseeable future.

Item 8. Financial Statements and Supplementary Data

The following audited consolidated financial statements and related report are set forth in this Annual Report on the following pages:

	Page
Independent Auditor's Report	F-1
Consolidated Balance Sheet as of September 30, 1995 and 1996	F-2
Consolidated Statement of Income for the years ended September 30, 1994, 1995 and 1996	F-3
Consolidated Statement of Stockholders' Equity for the years ended September 30, 1994, 1995 and 1996	F-4
Consolidated Statement of Cash Flows for the years ended September 30, 1994, 1995 and 1996	F-5
Notes to Consolidated Financial Statements	F-6

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

Not applicable.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Vital Signs, Inc.

We have audited the accompanying consolidated balance sheets of Vital Signs, Inc. and Subsidiaries as of September 30, 1996 and 1995 and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended September 30, 1996. 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 financial statements referred to above present fairly, in all material respects, the financial position of Vital Signs, Inc. and Subsidiaries as of September 30, 1996 and 1995 and the results of their operations and their cash flows for each of the three years in the period ended

September 30, 1996 in conformity with generally accepted accounting principles.

GOLDSTEIN GOLUB KESSLER & COMPANY, P.C.
New York, New York

November 14, 1996

F-1

VITAL SIGNS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET
ASSETS

	1996	September 30, 1995
	(in thousands)	
Current Assets:		
Cash and cash equivalents (Note 1)	\$ 17,747	\$ 8,334
Marketable securities (Notes 1 and 5)	602	3,757
Accounts receivable, less allowance for doubtful accounts of \$169 and \$285, respectively (Notes 15 and 16)	13,887	15,300
Inventory (Notes 1 and 3)	13,013	11,325
Prepaid expenses and other current assets (Note 4)	8,279	6,936
Total current assets	53,528	45,652
Property, Plant and Equipment - net (Notes 1 and 6)	21,131	12,674
Marketable Securities (Notes 1 and 5)	28,187	32,925
Goodwill (Notes 1 and 2)	16,619	15,419
Other Assets	4,291	3,751
Total Assets	\$ 123,756	\$110,421

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:		
Accounts payable	\$ 4,066	\$ 3,017
Current portion of long-term debt (Note 7)	500	500
Accrued expenses	2,406	4,936
Amounts payable relating to acquisitions	236	2,911
Deferred income taxes payable (Notes 1 and 13)	1,500	1,403
Total current liabilities	8,708	12,767
Deferred Income Taxes Payable (Notes 1 and 13)	1,334	993
Long-term Debt (Note 7)	2,700	3,200
Other liabilities	775	816
Total Liabilities	13,517	17,776
Commitments and Contingencies (Notes 2, 10 and 11)		
Stockholders' Equity (Note 12)		
Common stock - no par value; authorized 40,000,000 shares, issued 13,062,701 and 12,999,078 shares, respectively	29,666	29,015
Allowance for aggregate unrealized loss on marketable securities (Notes 1 and 5)	(426)	(100)
Retained earnings	80,999	63,730
Stockholders' equity	110,239	92,645
Total Liabilities and Stockholders' Equity	\$ 123,756	\$ 110,421

See notes to consolidated financial statements

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VITAL SIGNS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

For the Year Ended
September 30,

	1996	1995	1994
	----	----	----
(in thousands except per share amounts)			
Net sales-continuing product lines (Notes 1 and 16)	\$ 89,922	\$ 87,651	\$ 82,937
Net sales-product line disposed	808	1,902	2,187
Cost of goods sold	(38,418)	(38,279)	(37,594)
	-----	-----	-----
Gross profit	52,312	51,274	47,530
	-----	-----	-----
Operating expenses:			
Selling, general and administrative	23,491	23,629	27,317
Research and development	3,595	3,865	4,493
Interest income	(2,508)	(2,406)	(781)
Interest expense (Note 7)	346	382	555
Special charges (Note 9)			10,643
Other (income) expense (Notes 1, 8 and 14)	(1,635)	162	(969)
Goodwill amortization	643	354	462
	-----	-----	-----
	23,932	25,986	41,720
	-----	-----	-----
Income before provision for income taxes	28,380	25,288	5,810
Provision for income taxes (Notes 1 and 13)	9,591	9,154	4,132
	-----	-----	-----
Net income	\$ 18,789	\$ 16,134	\$ 1,678
	=====	=====	=====
Net income per share (Note 1)	\$ 1.44	\$ 1.24	\$.13
	=====	=====	-----
Weighted average number of shares	13,045	12,991	12,994
	=====	=====	=====

See notes to consolidated financial statements
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VITAL SIGNS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

<S>	Common Stock Shares	Amount	Allowance for Aggregate Unrealized Loss on Marketable Securities	Retained Earnings	Stockholders' Equity
<CAPTION>	-----	-----	-----	-----	-----
	(dollars in thousands)				
Balance at September 30, 1993	13,000,116	\$ 29,081	\$ (313)	\$ 47,370	\$ 76,138
Purchase of treasury stock net of reissuance	(9,554)	(115)		(21)	(136)
Adjustment to the allowance for aggregate unrealized loss on marketable securities			238		238
Dividends paid (\$.02 per share)				(260)	(260)
Net income				1,678	1,678
	-----	-----	-----	-----	-----
Balance at September 30, 1994	12,990,562	28,966	(75)	48,767	77,658
Purchase of treasury stock net of reissuance	(459)	(6)		(1)	(7)
Exercise of stock options	8,975	55			55
Adjustment to the allowance for aggregate unrealized loss on marketable securities			(25)		(25)
Dividends paid (\$.09 per share)				(1,170)	(1,170)
Net income				16,134	16,134
	-----	-----	-----	-----	-----
Balance at September 30, 1995	12,999,078	29,015	(100)	63,730	92,645

Reissuance of treasury stock net of purchase	4,129	(8)		45	37
Exercise of stock options	59,494	659			659
Adjustment to the allowance for aggregate unrealized loss on marketable securities			(326)		(326)
Dividends paid (\$.12 per share)				(1,565)	(1,565)
Net income				18,789	18,789
Balance at September 30, 1996	13,062,701	\$ 29,666	\$ (426)	\$ 80,999	\$ 110,239

</TABLE>

See notes to consolidated financial statements
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VITAL SIGNS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS

	For the Year Ended September 30,		
	1996	1995	1994
	----	----	----
	(in thousands)		
Cash flows from operating activities:			
Net income	\$ 18,789	\$ 16,134	\$ 1,678
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	2,322	1,535	1,315
Deferred income taxes	438	674	(931)
Amortization of goodwill	643	354	462
Amortization of deferred credit	(100)	(100)	(100)
Net (gain) loss on sales of available-for-sale securities	(608)	(429)	774
Net gain on sale of product line	(174)		
Write down of goodwill			3,000
Write down of fixed assets			213
Debt issue costs			124
Changes in operating assets and liabilities:			
(Increase) decrease in marketable securities		2,768	(1,517)
(Increase) decrease in accounts receivable	2,319	(3,323)	242
(Increase) in inventory	(1,963)	(967)	(1,040)
(Increase) decrease in prepaid expenses and other current assets	(1,481)	1,509	(1,686)
(Increase) decrease in other assets	(431)	639	75
Increase (decrease) in accounts payable and accrued expenses	(4,068)	367	2,916
Net cash provided by operating activities	15,686	19,161	5,525
Cash flows from investing activities:			
Acquisition of property, plant and equipment	(8,611)	(2,026)	(2,278)
Cash received for the sale of product line	2,786		
Proceeds from the maturity of a held-to-maturity security			1,020
Purchases of available-for-sale securities	(44,882)	(68,864)	(16,870)
Proceeds from sales of available-for-sale securities	53,057	41,221	12,342
Payment for purchase of subsidiaries, net of cash acquired	(7,254)	(2,237)	(766)
Net cash used in investing activities	(4,904)	(31,906)	(6,552)
Cash flows from financing activities:			
Dividends paid	(1,565)	(1,170)	(260)
(Purchase) reissuance of treasury stock	37	(7)	(136)
Proceeds from exercise of stock options and warrants	659	55	
Debt issue costs			(22)
Principal payments of long-term			

debt and notes payable	(500)	(1,211)	(2,454)
	-----	-----	-----
Net cash used in financing activities	(1,369)	(2,333)	(2,872)
	-----	-----	-----
Net increase (decrease) in cash and cash equivalents	9,413	(15,078)	(3,899)
Cash and cash equivalents at beginning of year	8,334	23,412	27,311
	-----	-----	-----
Cash and cash equivalents at end of year	\$ 17,747	\$ 8,334	\$ 23,412
	=====	=====	=====
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	\$ 394	\$ 389	\$ 611
Income taxes	\$ 9,306	\$ 6,058	\$ 6,575
Supplemental schedule of noncash investing activities:			
Accrued amounts relating to purchase of subsidiaries	\$ 125	\$ 3,336	
Settlement of disputed amounts in connection with the purchase of a subsidiary			\$ 707
Forgiveness of note receivable as payment for purchase of subsidiary	\$ 333		

See notes to consolidated financial statements
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VITAL SIGNS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Significant Accounting Policies:

Business Activity:

Vital Signs, Inc. ("VSI") and its subsidiaries (collectively the "Company") design, manufacture and market single-patient use respiratory, anesthesia and related critical care products to hospitals and other health care facilities.

Principles of Consolidation:

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. All significant intercompany transactions and balances have been eliminated.

Inventory:

Inventory is stated at the lower of cost (first-in, first-out method) or market.

Depreciation:

Depreciation and amortization of property, plant and equipment is provided for by the straight-line method over the estimated useful lives of the related assets.

Income Taxes:

Income taxes are based upon amounts included in the consolidated statement of income. Deferred income taxes result from differences between the time certain expenses are recognized for financial reporting purposes and the time when the items are actually reported for income tax purposes.

Revenue Recognition:

Revenue from sales of products is recognized at the date of shipment to customers.

Amortization of Goodwill:

Goodwill arising from business acquisitions accounted for under the purchase method is amortized over 40 years using the straight-line method.

Cash and Cash Equivalents:

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Company believes it is not exposed to any significant credit risk with respect to its highly liquid investments in money market securities and its commercial banking facilities.

VITAL SIGNS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Significant Accounting Policies (continued):

Income Per Share of Common Stock:

Income per share of common stock has been computed using the weighted average number of shares of common stock outstanding during each period. The dilutive effect of common stock equivalents is not material.

Marketable Securities:

Management determines the appropriate classification of securities at the time of purchase and reevaluates such designation as of each balance sheet date. Debt securities are classified as held-to-maturity when the Company has the positive intent and ability to hold the securities to maturity. Held-to-maturity securities are stated at amortized cost, adjusted for amortization of premiums and discounts to maturity. Such amortization is included in investment income. Interest on securities classified as held-to-maturity is included in investment income.

Certain marketable equity securities and debt securities not classified as held-to-maturity are classified as available-for-sale. Available-for-sale securities are carried at fair value, with the unrealized gains and losses, net of tax, reported in a separate component of stockholders' equity. The amortized cost of debt securities in this category is adjusted for amortization of premiums and discounts to maturity. Such amortization is included in investment income.

Realized gains and losses and declines in value judged to be other-than-temporary on available-for-sale securities are included in investment income. The cost of securities sold is based on the specific identification method. Dividends on securities classified as available-for-sale are included in other (income) expenses.

Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts in the financial statements. Actual results could differ from those estimates.

Accounting for the Impairment of Long-Lived Assets:

The Company adopted Statement of Financial Accounting Standards No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of", on October 1, 1996. Management believes this change will not be significant to the consolidated financial statements.

Accounting for Stock-Based Compensation:

The Company intends to elect to continue to measure compensation cost using APB Opinion No. 25 as is permitted by the Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation." The disclosure required by SFAS No. 123 is effective for financial statements with fiscal years beginning after December 15, 1995 (the Company's fiscal 1997).

VITAL SIGNS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 - Acquisitions/Dispositions:

1995 Acquisition:

In July 1995, the Company acquired, in a purchase transaction, an 85% ownership interest in Mediziv Medical Products, Ltd., ("Mediziv") a closely held Israeli company primarily engaged in the business of developing, assembling and

selling single use products for use in anesthesia and critical care. VSI paid \$2,200,000, consisting of a cash payment to the sellers and refinancing of Mediziv's funded indebtedness. The sellers are also eligible to receive contingent payments based on sales of Mediziv's products through the fiscal year ending in 2000, including minimum payments of \$790,000 (present value \$500,000). The estimated fair value of the assets acquired amounted to \$1,175,000 and liabilities assumed amounted to \$2,550,000 with goodwill of \$1,686,000 reflected at the date of acquisition.

1996 Acquisitions/Disposition

In January 1996, the Company acquired, in a purchase transaction, all of the outstanding stock of HealthStar Pharmaceutical Services, Inc., ("HealthStar") a company engaged in both the manufacture of equipment and contract manufacturing services utilizing specialized blow-fill-seal manufacturing technology for the pharmaceutical and medical industry. The Company paid \$1,595,000 at closing. The sellers are also eligible to receive contingent payments based on earnings before taxes, as defined, in each year ending December 31, 1996, 1997 and 1998. Management does not believe these targets will be achieved for the year ending December 31, 1996. The estimated fair value of the assets acquired approximated \$2,850,000 and liabilities assumed approximated \$1,550,000 with goodwill of approximately \$1,300,000 reflected at the date of acquisition.

In December 1995 the Company entered into a purchase agreement for all of the net assets related to the Misty Ox product line. The purchase price paid at closing by the Company was \$2,025,000. The estimated fair value of the assets acquired amounted to \$2,014,000 and liabilities assumed amounted to \$113,000 with goodwill of \$250,000 reflected at the date of acquisition.

During fiscal 1996, the Company sold its O.R. Concepts endoscopic product line and recognized a gain of \$174,000 (Note 8).

The effect of the operations of HealthStar and the Misty Ox product line from October 1, 1995 to the dates of acquisition on the Company's results of operations for the year ended September 30, 1996 was immaterial. In addition, the effect of the operations of Mediziv from October 1, 1994 to the date of acquisition and the effect of the operations of HealthStar and the Misty Ox product line on the Company's results of operations for the year ended September 30, 1995 was immaterial. Accordingly, proforma financial information regarding these transactions has not been presented.

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VITAL SIGNS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3 - Inventory:

Inventory consists of the following:

	September 30,	
	1996	1995
	-----	-----
	(in thousands)	
Raw materials	\$ 9,617	\$ 8,274
Finished goods	3,396	3,051
	-----	-----
	\$ 13,013	\$ 11,325
	=====	=====

Note 4 - Prepaid Expenses and Other Current Assets:

Prepaid expenses and other current assets consist of the following:

	September 30,	
	1996	1995
	-----	-----
	(in thousands)	
Prepaid employee fringe benefits	\$ 3,964	\$ 4,155
Notes and interest receivable (see Note 14)	1,919	882
Prepaid income taxes	1,330	1,038
Prepaid insurance	270	310
Other	796	551

 \$ 8,279 \$ 6,936
 =====

Note 5 - Marketable Securities:

The following is a summary of available-for-sale securities and held-to-maturity securities:

<TABLE>
 <CAPTION>

Available-for-Sale Securities						
	September 30, 1996			September 30, 1995		
	(in thousands)					
	Fair Value	Cost	Gross Unrealized Holding Losses	Fair Value	Cost	Gross Unrealized Holding Losses
<S>	-----	-----	-----	-----	-----	-----
<C>	<C>	<C>	<C>	<C>	<C>	<C>
U.S. Government obligations	19,412	19,835	(423)	\$ 19,167	\$ 19,160	\$ 7
Corporate obligations	3,314	3,404	(90)	2,161	2,168	(7)
Federal mortgage obligations	6,063	6,272	(209)	14,709	14,879	(170)
	-----	-----	-----	-----	-----	-----
	\$ 28,789	\$ 29,511	\$ (722)	\$ 36,037	\$ 36,207	\$ (170)
	=====	=====	=====	=====	=====	=====

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</TABLE>

VITAL SIGNS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At September 30, 1996 investments in debt securities classified as available-for-sale securities mature as follows:

<TABLE>
 <CAPTION>

	Maturity (in thousands)			
	0 - 1 Year	1 - 5 Years	5 - 10 Years	10 - 30 Years
<S>	-----	-----	-----	-----
<C>	<C>	<C>	<C>	<C>
U.S. Government obligations	\$ 200	\$ 19,212		
Corporate obligations	402	2,912		
Federal mortgage obligations		160	\$ 1,182	\$ 4,721
	-----	-----	-----	-----
	\$ 602	\$ 22,284	\$ 1,182	\$ 4,721
	=====	=====	=====	=====

Held-To-Maturity Securities						
	September 30, 1996			September 30, 1995		
	(in thousands)					
	Fair Value	Amortized Cost	Gross Unrealized Holding Gain	Fair Value	Amortized Cost	Gross Unrealized Holding Gain
<S>	-----	-----	-----	-----	-----	-----
<C>	<C>	<C>	<C>	<C>	<C>	<C>
Private export fund	---	---	---	\$ 664	\$ 645	\$ 19
	-----	-----	-----	-----	-----	-----
Total	\$ 28,789			\$ 36,682		
	=====			=====		

</TABLE>

At September 30, 1995 investments in debt securities classified as held-to-maturity mature in 1 - 5 years.

Realized gains and losses are determined on the basis of specific identification. During the year ended September 30, 1996 sales proceeds and gross realized gains and losses on securities classified as available-for-sale

securities were \$53,056,643, \$652,000 and (\$44,000) respectively. During the year ended September 30, 1995 sales proceeds and gross realized gains and losses on securities classified as available-for-sale securities were \$41,221,076, \$448,000 and (\$19,000) respectively. During the year ended September 30, 1994, sales proceeds and gross realized gains and losses on securities classified as available for sale securities were \$12,342,000, \$19,000 and (\$793,000) respectively.

During the year ended September 30, 1994, gross losses included in results of operations resulting from transfers of securities from the available-for-sales category into the trading category were \$1,486,000. The decision to transfer the securities was based on the Company's change in investment philosophy which required the Company to liquidate substantially all of its portfolio.

Results of operations for the years ended September 30, 1995 and September 30, 1994, respectively, include charges of \$4,000 and \$1,730,000 for unrealized losses on trading securities. There were no unrealized gains or losses during the year ended September 30, 1996. Stockholders equity at September 30, 1996, 1995 and 1994 includes an unrealized holding loss on available-for-sale securities of \$426,000, \$100,000 and \$75,000 respectively.

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VITAL SIGNS, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 - Property, Plant and Equipment:

Property, plant and equipment, at cost, consists of the following:

<TABLE>
 <CAPTION>

	September 30,		Estimated Useful Life
	1996	1995	
	----- (in thousands) -----		
<S>	<C>	<C>	
Land	\$ 1,631	\$ 690	
Building and building improvements	10,784	8,457	30 to 40 years
Equipment and molds	14,790	8,243	5 to 10 years
Fixtures and office equipment	3,183	2,653	5 to 15 years
Transportation equipment	278	43	5 years
	-----	-----	
	30,666	20,086	
Less accumulated depreciation and amortization	9,535	7,412	
	-----	-----	
	\$ 21,131	\$ 12,674	
	=====	=====	

</TABLE>

Substantially all of the Company's property, plant and equipment is pledged as collateral for the Company's long-term debt (see Note 7).

Note 7 - Long-term Debt:

Long-term debt consists of the following:

	September 30,	
	1996	1995
	(in thousands)	
Industrial Revenue Bonds ("IRB") payable	\$ 3,200	\$ 3,700
Less current portion	500	500
	-----	-----
	\$ 2,700	\$ 3,200
	=====	=====

Based on the borrowing rates currently available to the Company for loans with similar terms and average maturities, the fair value of the long-term debt approximates the carrying amount.

The Company entered into the IRB payable in varying installments with

interest at rates ranging from 6.75% to 8.625% per annum through December 2009.

The IRB, among other matters, contains certain financial covenants, limits the payment of dividends to any class of stock and restricts the incurrence of additional debt, as defined in the agreement. For the year ended September 30, 1996, the Company was in compliance with all of the required financial covenants.

Maturities of long-term debt are as follows:

Year ending September 30,	(in thousands)
1997	\$ 500
1998	200
1999	200
2000	200
2001	200
Thereafter	1,900
	\$ <u>3,200</u>
	=====

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VITAL SIGNS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At September 30, 1996, the Company has a \$10,000,000 line of credit with a bank which expires December 31, 1996. No balance was outstanding under this line of credit at September 30, 1996.

Note 8 - Other (Income) Expense:

Other (income) expense consists of the following:

<TABLE>
<CAPTION>

	For the Year Ended September 30,		
	1996	1995	1994
	(in thousands)		
<S>	<C>	<C>	<C>
Dividend income	\$ (75)	\$ (90)	\$ (1,441)
Amortization of deferred credit	(100)	(100)	(100)
Charitable contributions of inventory	563	161	452
Net capital gain on sale of marketable securities	(609)	(166)	
Gain on sale of endoscopic product line	(174)		
Gain on sale of Cardiologics (Note 15)	(1,000)		
Other	(240)	357	120
	-----	-----	-----
	\$ (1,635)	\$ 162	\$ (969)
	=====	=====	=====

</TABLE>

Note 9 - Special Charges:

During the fourth quarter of Fiscal 1994, the Company changed its investment philosophy, reassessed the carrying values of certain assets and liabilities and made several decisions to streamline the Company's operations in order to position the Company to be more competitive within the cost sensitive healthcare industry. The effect of these decisions was a charge to fourth quarter operations as follows:

	(in thousands)
O.R. Concepts Inc.:	
Goodwill write-down	\$ 3,000
Severance costs and other asset write-downs	865
European operations restructuring costs	1,331
U.S. operations cost reduction program	869
Investment losses	2,962
Asset and liability re-evaluations	1,616

	\$ 10,643
	=====

These charges include: (i) costs associated with the Company's decision to reduce its German operations, (ii) the write-down of a portion of the goodwill recorded in connection with the acquisition of O.R. Concepts, Inc., together

with other cost reductions relating to the operations of O.R. Concept, Inc., (iii) consulting fees and severance costs relating to cost reductions and operating efficiencies implemented by the Company, and (iv) losses recognized within the Company's investment portfolio resulting from a change in the Company's investment strategy whereby the Company recognized current unrealized losses in connection with certain securities transferred from available-for-sale securities to trading securities (see Note 5). Additionally, certain of these securities were sold prior to September 30, 1994. This change was recommended to protect the investment portfolio from further unrealized losses. Additionally, asset and liability re-evaluations include a reserve for tax assessment (\$600,000) and other miscellaneous amounts.

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VITAL SIGNS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10 - Commitments:

Leases:

The Company has entered into noncancelable operating leases providing for the lease of office and warehouse facilities, equipment and certain other assets. The equipment leases require the Company to make monthly rental payments of approximately \$30,000 for 72 months and grant the Company a purchase option to acquire such assets at fair market value (as defined) at the end of the 48th, 60th, and 72nd months. Rent expense, aggregating \$724,000, \$992,000, and \$760,000 respectively, has been charged to operations for the years ended September 30, 1996, 1995 and 1994, respectively. The Company's commitment under such leases is as follows:

Year ending September 30,	(in thousands)
1997	\$ 638
1998	622
1999	93
2000	10

	\$ 1,363
	=====

Employment Agreements:

The Company has entered into employment agreements, aggregating \$1,007,000 annually which expire at various dates through April, 2000.

Note 11 - Litigation:

In September 1994, two separate complaints were filed against the Company (one in U.S. District Court for the Northern District of Illinois and the other in U.S. District Court for the Western District of Louisiana), each of which allege patent infringement with respect to certain of the Company's resuscitator products and seek money damages and injunctive relief. The Louisiana matter has been withdrawn by the plaintiff and the suit has been dismissed. In the Illinois action discovery will close shortly and the matter will be placed on the court's trial calendar awaiting a trial date. The Company denies the material allegations of the Illinois complaint and intends to vigorously defend this matter.

The Company is involved in other legal proceedings arising in the ordinary course of business. The Company cannot predict the outcome of all of its legal proceedings with certainty. However, based upon its review of pending legal proceedings, the Company does not believe that its pending legal proceedings are material to its financial condition, its results of operations or its liquidity.

Note 12 - Stockholders' Equity:

Preferred Stock:

The Company has authorized 10,000,000 shares of no par value preferred stock. No shares were issued or outstanding at September 30, 1996 or 1995.

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VITAL SIGNS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12 - Stockholders' Equity (continued):

Stock Options:

Transactions relating to stock options are as follows:

<TABLE>
<CAPTION>

	Number of Shares			Price Per Share
<S>	<C>	<C>	<C>	
Balance September 30, 1993	587,639	\$ 5.55	-	\$ 24.25
Granted	122,313	\$ 9.25	-	\$ 14.75
Exercised				
Expired	(36,955)	\$ 14.25	-	\$ 23.50

Balance September 30, 1994	672,997	\$ 5.55	-	\$ 24.25
Granted	20,142	\$ 10.50	-	\$ 17.87
Exercised	(8,975)	\$ 6.09	-	\$ 6.09
Expired	(143,029)	\$ 9.25	-	\$ 24.25

Balance September 30, 1995	541,135	\$ 5.55	-	\$ 22.00
Granted	409,044	\$ 21.25	-	\$ 22.25
Exercised	(59,494)	\$ 5.55	-	\$ 22.00
Expired/cancelled	(274,225)	\$ 9.25	-	\$ 22.00

Balance September 30, 1996	616,460	\$ 5.55	-	\$ 22.25
	=====	=====		=====

</TABLE>

At September 30, 1996, 221,223 options were exercisable at prices ranging from \$5.55 to \$22.25 per share.

The Company's Board of Directors and stockholders have approved the adoption of a stock option plan for employees, a stock option plan for directors and a stock option plan for two executive officers which provide for the grant of options to purchase a maximum of 775,000 shares, 100,000 shares and 200,000 shares, respectively, of the Company's common stock. Options may be granted at prices not less than fair value at the date of grant. The Company has also granted options pursuant to contractual arrangements.

During 1994, a new stock option and investment plan (covering a maximum of 300,000 shares) was adopted. Under this plan, participants were granted two stock options for each share of the Company's common stock that they acquired. The options are granted at fair value at date of grant. Such stock options are subject to a defined vesting schedule. Shares purchased by employees may be financed by payroll deductions.

Options covering 571,654 shares (excluding lapsed shares) have been granted in connection with these plans through September 30, 1996.

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VITAL SIGNS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13 - Income Taxes:

The provision for income taxes consists of the following components:

<TABLE>
<CAPTION>

For the Year Ended
September 30,

	1996 ----	1995 ----	1994 ----
	(in thousands)		
<S>	<C>	<C>	<C>
Current:			
Federal	\$ 8,130	\$ 7,371	\$ 4,068
State	1,004	1,064	894
Foreign	19	38	101
Deferred:			
Federal	383	615	(817)
State	55	66	(114)
	-----	-----	-----
	\$ 9,591	\$ 9,154	\$ 4,132
	=====	=====	=====

</TABLE>

The tax effects of temporary differences that give rise to the net deferred tax liabilities are presented below:

	September 30,	
	1996 ----	1995 ----
	(in thousands)	
Prepaid expenses	1,567	\$ 1,513
Accelerated depreciation	762	874
Undistributed DISC earnings	808	912
Accrued liabilities	(303)	(903)
Capital losses	500	1,254
Valuation allowance attributable to capital loss carry forward	(500)	(1,254)
	-----	-----
	\$ 2,834	\$ 2,396
	=====	=====

The total provision for income taxes differs from that amount which would be computed by applying the U.S. federal income tax rate to income before provision for income taxes. The reasons for these differences are as follows:

	For the Year Ended September 30,		
	1996 ----	1995 ----	1994 ----
	(in thousands)		
Statutory federal income tax rate	35.0%	35.0 %	34.0
O.R. Concepts goodwill write down			17.6
Net capital losses (gains) on investments	(2.0)	(.2)	17.4
State income taxes net of federal tax benefit	2.4	2.9	8.9
Dividend exclusion/tax exempt interest	(.3)	(.2)	(5.9)
Other	(1.3)	(1.3)	(.9)
	-----	-----	-----
Effective income tax rate	33.8%	36.2%	71.1%
	=====	=====	=====

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VITAL SIGNS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company's capital losses may be carried forward to offset future capital gains. Such capital loss carryforwards aggregate \$2.3 million for federal income tax purposes, expiring at various dates through 2000, and \$1.3 million for financial reporting purposes.

Note 14 - Related Party Transactions:

During fiscal 1996, the Company entered into a joint venture arrangement (Cardiologics, L.L.C.) with the objective to develop specialized cardio-vascular products ("Cardiologics"). Approximately \$100,000 of research and development expense was incurred by the Company in fiscal 1996. During fiscal 1996, the Company's management made a decision to sell its equity interest in the joint venture for several business reasons, including the time frame to commercially introduce the product, the research, development and clinical costs that are

likely to be incurred, as well as that the primary market focus of the product is outside of the core anesthesia and critical care product focus of the Company.

During September 1996, the Company sold its interest for a note receivable of \$1,000,000 plus repayment of expenses paid on Cardiologics behalf which resulted in a gain of \$1,000,000. The investment was sold to a private venture capital fund whose primary investor is the President and principal stockholder of the Company. The note is due during the year ended September 30, 1997. The Company has received a payment on this note amounting to \$500,000 subsequent to September 30, 1996 and reimbursement of the \$100,000 of research and development costs.

Note 15 - Allowance for Doubtful Accounts:

Information relating to the allowance for doubtful accounts is as follows:

<TABLE>
<CAPTION>

Description	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions	Balance at End of Period
-----	-----	-----	-----	-----
	(in thousands)			
Allowance for doubtful accounts:				
Year ended September 30,				
<S> <C>	<C>	<C>	<C>	<C>
1994	\$ 100	\$ 145	\$ 95 (A)	\$ 150
	=====	=====	=====	=====
1995	\$ 150	\$ 302	\$ 167 (A)	\$ 285
	=====	=====	=====	=====
1996	\$ 285	\$ 45	\$ 161 (A)	\$ 169
	=====	=====	=====	=====

</TABLE>

(A) Write-off of uncollectible accounts receivable.

Note 16 - Significant Customers:

A portion of the Company's hospital customers are serviced via national and regional medical supply distributors. During fiscal 1996, 36% of the Company's sales were made in this distribution channel. One of the large national distributors represented approximately 14% of net sales--continuing product lines. The same customer represents approximately 11% of outstanding accounts receivable at September 30, 1996.

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PART III

Item 10. Directors of the Registrant.

The registrant incorporates by reference herein information to be set forth in its definitive proxy statement for its 1997 annual meeting of stockholders that is responsive to the information required with respect to this Item. If such proxy statement is not mailed to stockholders and filed with the Securities and Exchange Commission within 120 days after the end of the registrant's most recently completed fiscal year, the registrant will provide such information by means of an amendment to this Annual Report on Form 10-K.

Item 11. Executive Compensation.

The registrant incorporates by reference herein information to be set forth in its definitive proxy statement for its 1997 annual meeting of stockholders that is responsive to the information required with respect to this Item. If such proxy statement is not mailed to stockholders and filed with the Securities and Exchange Commission within 120 days after the end of the registrant's most recently completed fiscal year, the registrant will provide such information by means of an amendment to this Annual Report on Form 10-K.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

The registrant incorporates by reference herein information to be set forth in its definitive proxy statement for its 1997 annual meeting of stockholders that is responsive to the information required with respect to this Item. If such proxy statement is not mailed to stockholders and filed with the Securities and Exchange Commission within 120 days after the end of the registrant's most recently completed fiscal year, the registrant will provide such information by means of an amendment to this Annual Report on Form 10-K.

Item 13. Certain Relationships and Related Transactions.

The registrant incorporates by reference herein information to be set forth in its definitive proxy statement for its 1997 annual meeting of stockholders that is responsive to the information required with respect to this Item. If such proxy statement is not mailed to stockholders and filed with the Securities and Exchange Commission within 120 days after the end of the registrant's most recently completed fiscal year, the registrant will provide such information by means of an amendment to this Annual Report on Form 10-K.

PART IV

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

- (a) The financial statements listed in the index set forth in Item 8 of this Annual Report on Form 10-K are filed as part of this Annual Report.
- (b) All schedules have been omitted because they are not applicable or the required information is included in the financial statements or notes thereto.
- (c) The following exhibits are incorporated by reference herein or annexed to this Annual Report:

Exhibit	Description
3.1	Restated Certificate of Incorporation is incorporated by reference to Exhibit 3.1 to the Company's annual report on Form 10-K for the year ended September 30, 1995.
3.2	By-laws, as amended, are incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-1 (No. 33-35864) initially filed with the Commission on July 13, 1990.
4.1	1984 Economic Development Authority Loan Agreement is incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-1 (No. 33-35864) initially filed with the Commission on July 13, 1990.
4.2	Amended and Restated Loan Agreement between the Company and the New Jersey Economic Development Authority, dated as of November 1, 1990, is incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-1 (No. 33-34107) initially filed with the Commission on February 21, 1991.
4.3	Letter of Credit and Reimbursement Agreement, dated August 27, 1993, between the Company and Chemical Bank New Jersey N.A. is incorporated by reference to Exhibit 4.3 to the Company's Annual Report on Form 10-K for the year ended September 30, 1993.
10.1	1990 Employee Stock Option Plan, as amended, is incorporated by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-K for the year ended September 30, 1993.
10.2	1991 Director Stock Option Plan, as amended, is incorporated by reference to Exhibit 10.2 to the Company's Annual Report on Form 10-K for the year ended September 30, 1993.
10.3	1993 Executive Stock Option Plan is incorporated by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K for the year ended September 30, 1993.

- Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K (continued).
- | Exhibit | Description |
|---------|---|
| 10.4 | Agreement between the Company and Respiroics, Inc., dated effective as of July 1, 1993, is incorporated by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K for the year ended September 30, 1993. |
| 10.5 | Forms of Option Agreements with various employees of the Company is incorporated by reference to Exhibit 10.6 to the Company's Registration Statement on Form S-1 (No. 33-39107) initially filed with the Commission on February 21, 1991. |
| 10.6 | Agreement, dated November 6, 1992, among the Company and certain shareholders of O.R. Concepts, Inc., is incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed with the Commission on November 30, 1992. |
| 10.7 | Vital Signs Investment Plan, as amended. |
| 10.8 | Stock Option Grants to Terence D. Wall and Barry Wicker, replacing stock options granted to Messrs. Wall and Wicker pursuant to the 1993 Executive Stock Option Plan. |
| 10.9 | Agreement to sell the Registrant's 51% interest in Cardiologics, L.L.C., including the related promissory note, security agreement and guarantee. |
| 21.1 | Subsidiaries of the Registrant. |
| 23.1 | Consent of Goldstein Golub Kessler & Company, P.C. |
| 24.1 | Power of Attorney |
| 27.1 | Financial Data Schedule |
| (d) | During the quarter ended September 30, 1996, the Company did not file any Current Reports on Form 8-K. |

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, this 27th day of December, 1996.

VITAL SIGNS, INC.

By: /s/ Anthony J. Dimun

Anthony J. Dimun,
Executive Vice President

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

Signatures	Title	Date
/s/ Terence D. Wall* -----	President, Chief	December 27, 1996
Terence D. Wall	Executive Officer and Director	
/s/ David J. Bershad*	Director	December 27, 1996

David J. Bershad

/s/ Anthony J. Dimun Executive Vice President, December 27, 1996
Anthony J. Dimun Chief Financial Officer,
 Treasurer (Chief Financial
 and Accounting Officer)
 and Director

/s/ Joseph J. Thomas* Director December 27, 1996

Joseph J. Thomas

/s/ John Toedtman* Director December 27, 1996

John Toedtman

/s/ Barry Wicker* Executive Vice President December 27, 1996

Barry Wicker and Director

* By: /s/ Anthony J. Dimun

Anthony J. Dimun
Attorney-in-Fact

EXHIBIT INDEX

Exhibit	Description
10.7	Option and Investment Plan as amended.
10.8	Stock Option Grants to Terence D. Wall and Barry Wicker, replacing stock options granted to Messrs. Wall and Wicker pursuant to the 1993 Executive Stock Option Plan.
10.9	Agreement to sell the Registrant's 51% interest in Cardiologics, L.L.C., including the related promissory note, security agreement and guarantee.
21.1	Subsidiaries of the Registrant.
23.1	Consent of Goldstein Golub Kessler & Company, P.C.
24.1	Power of Attorney
27.1	Financial Data Schedule

Exhibit 10.7

VITAL SIGNS INVESTMENT PLAN (as amended and restated through October 23, 1996)

(Note: unless and until the shareholders of the Corporation approve this amended and restated plan, any stock options granted to directors pursuant to this plan shall be granted subject to shareholder approval)

ARTICLE 1. ESTABLISHMENT, PURPOSE, AND DURATION

1.1 Establishment of the Plan. Vital Signs, Inc., a New Jersey corporation (hereinafter referred to as the "Company"), pursuant to authorization by its Board of Directors, hereby establishes a stock purchase and stock option plan to be known as the "Vital Signs Investment Plan" (hereinafter referred to as the "Plan"), as set forth in this document. The Plan permits the grant of options to eligible Employees and Directors upon the purchase of Plan Shares.

Subject to approval of appropriate regulatory authorities, the Plan shall become effective as of January 21, 1994 (the "Effective Date"), and shall remain in effect as provided in Section 1.3 hereof.

1.2 Purpose of the Plan. The purpose of the Plan is to promote the success, and enhance the value, of the Company by linking the personal interests of Participants to those of Company shareholders, and by providing Participants with an incentive for outstanding performance.

The Plan is further intended to provide flexibility to the Company in its ability to motivate, attract, and retain the services of Participants upon whose judgment, interest, and special effort the successful conduct of its business largely is dependent.

1.3 Duration of the Plan. The Plan shall commence on the Effective Date, as described in Section 1.1 hereof, and shall remain in effect, subject to the right of the Board of Directors to terminate the Plan at any time pursuant to Article 12 hereof, until all Shares subject to it shall have been purchased or acquired according to the Plan's provisions. In the absence of an amendment adopted by the Board to extend the Plan, the Plan shall end ten years and one day after the Effective Date.

ARTICLE 2. DEFINITIONS

Wherever used in the Plan, the following terms shall have the meanings set forth below and, when the meaning is intended, the initial letter of the word is capitalized:

- (a) "Award Agreement" means an agreement to be entered into by and between the Company and each Participant, setting forth the terms and conditions applicable to each purchase of Plan Shares under the Plan, and of the corresponding grant of Options.
- (b) "Board" or "Board of Directors" means the Board of Directors of the Company.
- (c) "Base Salary" with respect to a particular Window Period means (i) in the case of an Employee who has been employed by the Company or its subsidiaries for at least one year prior to the first day of such Window Period, the aggregate amount of income set forth on the Form W-2 provided to a Participant by the Company or its subsidiaries for the calendar year prior to the calendar year in which the Window Period occurs, and (ii) in the case of an Employee who has not been employed by the Company or its subsidiaries for at least one year prior to the first day of such Window Period, the annual salary of such Employee at the commencement of such Window Period. Determinations of Base Salary shall be made by the Committee in its sole discretion or, upon delegation by the Committee, by the Plan Administrator.
- (d) "Change in Control" shall mean any of the following events:
- (i) the acquisition by any one person, or more than one person acting as a group, of ownership of stock of the Company, other than any person or group of persons who held such total voting power on the date that this Plan was first adopted by the Board, possessing 33-1/3% or more more of the total voting power of the capital stock of the Company;
 - (ii) the approval by the stockholders of the Company of (i) any consolidation or merger of the Company in which the holders of voting stock of the Company immediately before the consolidation or merger will not own 50% or more of the voting shares of the continuing or surviving corporation immediately after such consolidation or merger, or (ii) any sale, lease, exchange or other transfer (in one transaction or series of related transactions) of all or substantially all of the assets of the Company; or
 - (iii) a change of 50% (rounded to the next whole percent) in the membership of the Board of Directors within a 12-month period, unless the election or nomination for election by stockholders of each new director within such period was approved by the vote of 80% (rounded to the

next whole person) of the directors then still in office who were in office at the beginning of the 12-month period.

- (e) "Code" means the Internal Revenue Code of 1986, as amended from time to time.
- (f) "Committee" means a committee of the Board of Directors consisting of Terence D. Wall and Barry Wicker or such other individuals as the Board shall designate from time to time.
- (g) "Company" means Vital Signs, Inc., a New Jersey corporation, or any successor thereto as provided in Article 15 hereof.
- (h) "Director" means any individual who is a member of the Board of Directors of the Company.
- (i) "Disability" shall mean total and permanent disability as determined by the Committee.
- (j) "Disqualifying Termination" for the purposes of this Plan shall be determined by the Committee, and shall mean a termination of employment of an Employee or termination of service as a Director for: (i) an act or acts of dishonesty committed by a Participant; or (ii) violations by a Participant of the policies and procedures of the Company applicable to the Participant's employment or job category or status as a Director which are: (A) grossly negligent or (B) willful and deliberate.
- (k) "Employee" means any employee of the Company or any of its subsidiaries. The term "Employee" shall include any employee who is also a Director.
- (l) "Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time, or any successor act thereto.
- (m) "Fair Market Value" means the closing sales price for Shares as quoted on the National Market System of the National Association of Securities Dealers Automated Quotation System on the relevant date, or if there were no sales on such date, the closing sales price for Shares as quoted on the National Market System of the National Association of Securities Dealers Automated Quotation System on the first immediately preceding date on which such price is quoted.
- (n) "Fully Paid" means that a Participant has satisfied the full purchase price for Plan Shares by either (i) paying cash in one lump sum to the Plan Administrator or (ii) by paying in full, as determined by the Plan Administrator in accordance with any payroll deduction program as shall be implemented

by the Plan Administrator with the approval of the Committee. All such determinations shall be subject to the provisions of Section 6.4 hereof.

- (o) "Option" means an option to purchase Shares granted under Article 7 hereof. It is intended that Options under this Plan shall not be incentive stock options for federal income tax purposes.
- (p) "Option Price" means the price at which a Share may be purchased by a Participant pursuant to an Option, as determined by the Committee.
- (q) "Participant" means an Employee or Director of the Company who has purchased Plan Shares and who has outstanding an Option granted under the Plan.
- (r) "Plan Administrator" means the individual or committee designated by the Committee to administer this Plan; or the Committee if no such designation has been made.
- (s) "Plan Shares" means Shares purchased by Participants pursuant to the terms of Article 6 hereof.
- (t) "Retirement" shall have the same meaning herein as under the Company's 401(k) plan.
- (u) "Shares" means the shares of common stock of the Company.
- (v) "Window Period" means the time period designated by the Board, during which eligible Employees and Directors may purchase Plan Shares, pursuant to the terms of Article 6 hereof. The initial Window Period shall begin January 21, 1994, and end February 7, 1994. Subsequent Window Periods shall last approximately fifteen days each, and shall occur, at times designated by the Board; it is currently intended that Window Periods will occur at six months intervals.

ARTICLE 3. ADMINISTRATION

3.1 The Committee. The Plan shall be administered by the Committee, or by a Plan Administrator appointed by the Committee. The Plan Administrator shall be appointed from time to time by, and shall serve at the discretion of, the Committee. The Committee and the Plan Administrator shall, in turn, retain independent agents to purchase Shares in the market for purposes of the Plan unless the Committee determines from time to time that such Shares shall be issued directly by the Company.

3.2 Authority of the Committee. The Committee shall have the power to establish performance measures which will govern the number of Options available in connection with purchases of Plan Shares, to determine the degree to which

the predesignated performance measures are attained by the Company, and to determine the terms and conditions applicable to purchases of Plan Shares and grants of Options in a manner consistent with the Plan; to construe and interpret the Plan and any agreement or instrument entered into under the Plan; to establish, amend, or waive rules and regulations for the Plan's administration; and (subject to the provisions of Article 12 hereof) to amend the terms and conditions of any outstanding Plan Share or Option to the extent such terms and conditions are within the discretion of the Committee as provided in the Plan. Further, the Committee shall make all other determinations which may be necessary or advisable for the administration of the Plan. The Committee may delegate its authority as identified hereunder to a Plan Administrator or such other persons as it may deem appropriate.

3.3 Decisions Binding. All interpretations of the Plan, determinations and decisions made by the Committee pursuant to the provisions of the Plan and all related orders or resolutions of the Board of Directors shall be final, conclusive, and binding on all Participants.

ARTICLE 4. SHARES SUBJECT TO THE PLAN

4.1 Number of Shares. Subject to adjustment as provided in Section 4.3 hereof, the total number of Shares available for purchase as Plan Shares and for grant under Options pursuant to the Plan may not exceed 300,000. These 300,000 Shares may be either authorized but unissued, or reacquired, Shares. The following rules will apply for purposes of the determination of the number of Shares available for grant under the Plan:

- (a) the sale of plan shares shall reduce the shares available for purchase and/or grant under the plan plan by the number of shares sold; and
- (b) unless and until an Option is canceled, lapses, expires, or terminates, it shall be counted against the authorized pool of Shares.

4.2 Lapsed Awards. If any Plan Share purchase or Option grant under this Plan is canceled, terminates, expires, or lapses for any reason, any Plan Shares and/or any Shares subject to such Option shall again be available for purchase and/or grant under the Plan.

4.3 Adjustments in Authorized Shares. In the event of any merger, reorganization, consolidation, recapitalization, separation, liquidation, stock dividend, split-up, share combination, or other change in the corporate structure of the Company affecting the Shares, such adjustment shall be made in the number and class of Shares which may be purchased or delivered under the Plan, and in the number and class of and/or price of outstanding Plan Shares and Shares subject to outstanding Options granted under the Plan, as may be determined to be appropriate and equitable by the Committee, in its sole discretion, to prevent dilution or enlargement of rights; and provided that the number of Plan Shares and the Shares subject to any Option shall always be a whole number.

ARTICLE 5. PARTICIPATION

All persons who are Employees or Directors during a Window Period shall be given the opportunity to purchase Plan Shares during such Window Period, provided that such purchases are within the limits set forth in Section 6.2 hereof and provided that in the event that the Board terminates the Plan, no Employee or Director shall have the right to purchase Plan Shares pursuant to Article 6 hereof in any Window Period commencing subsequent to such termination. Each Participant's eligibility for grants of Options pursuant to Article 7 hereof shall be contingent upon the Participant's purchasing Plan Shares, as set forth in Article 6 hereof.

ARTICLE 6. PURCHASES OF PLAN SHARES

6.1 Plan Share Purchases. An Employee or Director shall only be entitled to purchase Plan Shares during a Window Period if such Employee or Director is an Employee or Director, as the case may be, during such Window Period. Each Plan Share purchased by a Participant under this Plan shall entitle the Participant to be granted an Option to purchase a specified number of Shares, as set forth in Article 7 herein. Purchases of Shares by Participants other than pursuant to this Plan shall not entitle Participants to receive option grants under Article 7 herein.

6.2 Maximum and Minimum Plan Share Purchases. All Plan Share purchases shall occur during a Window Period. The Fair Market Value of the Plan Shares purchased shall be determined pursuant to the provisions of Section 6.3 hereof. For each Window Period, the maximum aggregate Fair Market Value of Plan Shares which may be purchased by an Employee or Director is \$50,000, unless the Committee approves a higher limit on a case-by-case basis with respect to specific Employees or Directors. For any Window Period, no Employee shall be permitted to purchase Plan Shares having an aggregate Fair Market Value equal to less than one half of one percent of Base Salary for that Window Period. For any Window Period, there shall be no minimum number of Plan Shares which must be purchased by Directors, provided that the number of shares purchased by any Director must be a whole number.

6.3 Purchase Price. The price of each Plan Share purchased under this Plan shall equal the Fair Market Value of a Share on the last trading day of the applicable Window Period.

6.4 Procedure for Purchasing Plan Shares. A Participant who desires to purchase Plan Shares shall notify the Plan Administrator, in writing, of the number of Plan Shares to be purchased, and of the desired manner of paying for the Plan Shares. Subject to Section 6.2 hereof, all applicable rules and regulations of the United States Securities and Exchange Commission, and the Plan Administrator's ability to reduce the number of Plan Shares to be purchased to a whole number, the Plan Administrator shall cause to be issued from the Company or shall purchase, on behalf of the Participant, the number of Plan Shares indicated by the Participant, within thirty (30) days after the end of the applicable Window Period. The Plan Administrator shall establish an account

in the name of each Participant, for the purpose of administering the Plan Shares purchased by each Participant. The Plan Administrator shall have the discretion to establish rules and procedures for purchasing Plan Shares on behalf of Participants, and for administering the Plan Share accounts of Participants.

In addition, the Plan Administrator shall provide each Participant who purchases Plan Shares with an Award Agreement, setting forth the terms and provisions applicable to the Plan Shares purchased, and the Options granted to the Participant in connection with the purchase of Plan Shares. Purchases requested by Employees or Directors who fail to execute the Award Agreement tendered by the Plan Administrator may be voided by the Plan Administrator. Subject to the terms of the Plan and any terms approved by the Committee, and to the conditions placed on each Plan Share purchase opportunity, each Participant shall satisfy the purchase price for Plan Shares by paying cash in one lump sum to the Plan Administrator. If permitted by the Plan Administrator, an Employee may satisfy the purchase price for Plan Shares by a combination of paying cash and payroll deductions.

In the event that any Participant whom the Plan Administrator permits to pay for Plan Shares through payroll deductions subsequently directs the Plan Administrator to cease making payroll deductions before all Plan Shares which the Participant previously indicated he desired to purchase are Fully Paid, then (i) the Participant will forfeit all Plan Shares which are not then Fully Paid, (ii) the Participant will forfeit all Options related to any Plan Shares which are not then Fully Paid and (iii) all Options related to any Fully Paid Plan Shares will be subject to the Option forfeiture provisions contained in Article 8 hereof. The Participant's Award Agreement will be revised to indicate the forfeited Plan Shares and Options and the Option forfeiture requirements described in Article 8 applicable to any other Options.

6.5 Holding Period for Plan Shares. Subject to the terms of this Plan, all Plan Shares which have been purchased shall be delivered two (2) years from the date of purchase, provided that such Shares are Fully Paid. To the extent that a Plan Share is Fully Paid prior to the end of the two (2) year holding period, and subject to the option forfeiture provisions set forth in Article 8 hereof, a Participant who is an Employee or Director at the time of the requested transfer, shall be entitled to sell or otherwise transfer or convey the Plan Shares (it being understood that the Plan Administrator shall have sole discretion to determine the extent to which a Plan Share is Fully Paid during the two (2) year holding period subject to Section 6.4 hereof).

Participants desiring to sell, transfer, or otherwise convey a Fully Paid Plan Share prior to the end of the two (2) year holding period shall submit a request in writing to the Plan Administrator for delivery of a Share certificate representing such Plan Share. Such request shall be accompanied by the Participant's Award Agreement, representing the grant of Options in connection with the purchase of the Plan Share. If the Plan Administrator determines that the Plan Share is Fully Paid, then the Plan Administrator shall deliver to the Participant a fully executed Share certificate, representing such Plan Share, and shall document in the Award Agreement of the Participant the corresponding

change in Option forfeiture requirements of the Plan (as set forth in Article 8 hereof).

In the event that prior to the end of the two (2) year holding period, a Participant's employment with the Company or service as a Director of the Company terminates, as the case may be, the terms of Article 9 hereof shall govern the treatment of outstanding Plan Shares.

6.6 Voting Rights. During the two (2) year holding period described in Section 6.5 hereof and until such Shares are transferred and/or sold, Participants who have purchased Plan Shares shall be entitled to exercise full voting rights with respect to such Plan Shares.

6.7 Dividends and Other Distributions. During the two (2) year holding period described in Section 6.5 hereof, Participants who have purchased Plan Shares shall be entitled to receive all dividends and other distributions (if any) paid with respect to such Plan Shares while they are so held, provided that any such distributions or dividends may be subject to the terms of any outstanding purchase loan programs. If any such dividends or distributions are paid in Shares, the Shares shall be converted into additional Plan Shares, and shall be subject to the same restrictions on transferability and forfeitability as the Plan Shares with respect to which they were paid.

6.8 Award Agreement. Each purchase of Plan Shares shall be evidenced by an Award Agreement, setting forth relevant terms and provisions applicable to the Plan Shares and to the corresponding grant of Options.

ARTICLE 7. STOCK OPTIONS

7.1 Option Grants. Subject to the terms and provisions of the Plan, Options shall be granted to Participants upon the purchase of Plan Shares as of the last day of the Window Period during which such Plan Shares have been purchased. The number of Options to be granted in connection with each purchase of Plan Shares shall be a function of the degree to which the Company attains predesignated performance goals.

The Board's or the Committee's determination with respect to the degree of achievement of the predesignated performance goals shall govern the number of Shares under option which shall be granted in connection with each Plan Share purchased. The minimum number of Shares to be granted under option in connection with the purchase of each Plan Share shall be one (1), and the maximum number shall be three (3).

The multiple selected by the Board or the Committee shall apply to all Plan Share purchases during the applicable Window Period. Prior to or at the beginning of the relevant Window Period, the multiple shall be communicated to all Employees and Directors.

7.2 Option Price. The Option Price for each option granted under this Plan shall equal the Fair Market Value of a Share on the last trading day of the Window Period during which the Option shall have been granted.

7.3 Duration of Options. Each Option shall expire at such time as the Committee shall determine at the time of grant; provided, however, that no option shall be exercisable later than ten years and one day from the date on which the Option was granted.

7.4 Exercise of Options. Options granted under the Plan shall be exercisable at such times and shall be subject to such restrictions and conditions as the Committee shall in each instance approve, which need not be the same for each grant or for each Participant; provided, however, that no Option shall be exercisable within two years after the date of its grant other than in connection with a Change in Control; and provided further that the exercise provisions of each Option shall be consistent with Article 8 hereof.

7.5 Payment. Options shall be exercised by the delivery of a written notice of exercise to the Plan Administrator, setting forth the number of Shares with respect to which the Option is to be exercised, accompanied by full payment for the Shares.

The Option Price upon exercise of any Option shall be payable to the Company in full either: (a) in cash or its equivalent or (b) by tendering previously acquired Shares having an aggregate Fair Market Value at the time of exercise equal to the total Option Price, or (c) by a combination of both such approaches.

The Committee also may allow cashless exercises as permitted under the Federal Reserve Board's Regulation T, subject to applicable legal restrictions, or by any other means which the Committee determines to be consistent with the Plan's purposes and applicable law.

As soon as practicable after receipt of a written notification of exercise and full payment, the Company shall deliver to the Participant, in the Participant's name, Share certificates in an appropriate amount, based upon the number of Shares purchased under the Option(s).

7.6 Restrictions on Share Transferability. The Committee shall impose such restrictions on any Shares acquired pursuant to the exercise of an Option under the Plan as it may deem advisable, including, without limitation, restrictions under applicable Federal securities laws, under the requirements of NASDAQ or any stock exchange or market upon which such Shares are then listed and/or traded, and under any blue sky or state securities laws applicable to such Shares.

7.7 Nontransferability of Options. No Option granted under the Plan may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. During a Participant's lifetime, all Options granted to a Participant under the Plan shall be exercisable only by such Participant, except as set forth in Section 7.9 hereof.

7.8 No Rights as a Shareholder. Prior to the purchase of Shares pursuant to

an Option, a Participant shall not have the rights of a shareholder with respect to such Shares.

7.9 Exercise of Options With Respect to Incapacitated Participants. If a Participant, who has met the holding period described in Section 6.5 hereof or has completed five (5) years of continuous employment or service as a Director subsequent to the purchase of Plan Shares, is under a legal disability or in the Committee's opinion incapacitated in any way so as to be unable to manage his or her financial affairs, the Committee may allow such Participant's legal representative to exercise the Participant's Options on behalf of the Participant. Actions taken pursuant to this Section by the Committee shall discharge all liabilities under the Plan.

ARTICLE 8. PREMATURE DISPOSITION OF PLAN SHARES

Except as otherwise provided in Section 9.1, in the event a Plan Participant (i) sells, transfers or otherwise conveys a Fully Paid Plan Share prior to the end of the two (2) year holding period described in Section 6.5 hereof or (ii) directs the Plan Administrator to cease making payroll deductions before all Plan Shares which the Participant previously indicated he desired to purchase are Fully Paid, then in each such case, the right to exercise the Options granted in connection with the purchase of a Fully Paid Plan Share shall be contingent upon the Participant's completion of five (5) years continuous (a) employment with the Company or any of its subsidiaries or (b) service as a Director of the Company subsequent to the last day of the Window Period in which the Participant agreed to purchase such Plan Share.

ARTICLE 9. TERMINATION OF EMPLOYMENT OR SERVICE AS A DIRECTOR

9.1 Termination by Reason of Death, Disability or Retirement. In the event the employment or service as a Director of a Participant is terminated by reason of death, Disability, or Retirement, the following provisions shall apply:

- (a) Treatment of Plan Shares. The Participant will be credited with all Plan Shares which are Fully Paid as of the date of employment termination or termination of service as a Director (in the case of Disability, the Plan Administrator shall determine the date that employment or service as a Director is deemed to have terminated). If, at the time of employment termination or termination of service as a Director, the Participant has not Fully Paid all outstanding Plan Shares purchased, the number of Plan Shares which shall be deemed Fully Paid shall be determined at the sole discretion of the Plan Administrator, subject to Section 6.4 hereof.

All outstanding Plan Shares which are not Fully Paid as of the date of employment termination or termination of service as a Director (as determined by the Plan Administrator, subject to Section 6.4) shall be forfeited

to the Company, and shall once again become available for purchase under the Plan.

If a Participant's death, Disability, or Retirement occurs after the delivery of Plan Shares to him or her, such Plan Shares shall not be affected by the employment termination or termination of service as a Director.

- (b) Treatment of Stock Options. All outstanding Options granted to the Participant corresponding to Plan Shares Fully Paid for prior to the Participant's termination of employment or termination of service as a Director which are then exercisable (and, accordingly, which have been held at least two years from the grant date) (collectively, the "Covered Options"), shall not be forfeitable pursuant to Article 8 (if applicable) in the event of death or Disability, but shall be forfeitable pursuant to Article 8 (if applicable) in the event of Retirement and, if not so forfeitable, shall remain exercisable at any time prior to their expiration date, or for one (1) year after the date of death, Disability, or Retirement, whichever period is shorter, by the Participant or by such person or persons that have acquired the Participant's rights under the Option by will or by the laws of descent and distribution. The Plan Administrator shall, in all cases, determine the date of employment termination or termination of service as a Director. All Options granted to the Participant pursuant to the Plan other than the Covered Options shall be forfeited and shall once again be available for grant under the Plan.
- (c) Amounts Subject to Dispute. If at the time of a Participant's death, the Plan Administrator is unable to determine what person, persons or entity is entitled to exercise Options on behalf of the Participant, the Plan Administrator shall not be required to implement any directions to exercise such Options or deliver Plan Shares to any such person, persons or entity during the pendency of such dispute. Neither the Plan Administrator, the Committee or the Company shall be responsible for a failure to implement such exercise instructions or to deliver such Plan Shares during the pendency of such dispute, notwithstanding the fact that such Plan Shares or Options may diminish in value or expire during the pendency of such dispute.

9.2 Disqualifying Termination. In the event that the Company or its subsidiaries terminates the employment or service as a Director of a Participant as a result of a Disqualifying Termination, the following provisions shall

apply:

- (a) Treatment of Plan Shares. The Participant will be credited with all Plan Shares which are Fully Paid as of the date of termination. The number of Plan Shares which are Fully Paid for as of such date shall be determined according to the guidelines set forth in Section 9.1(a) hereof. All outstanding Plan Shares which are not Fully Paid as of the date of termination shall be forfeited to the Company and shall once again become available for purchase under the Plan.

Plan Shares which have been delivered to a Participant prior to termination shall not be affected by this provision.

- (b) Treatment of Stock Options. Upon such a termination, a Participant shall forfeit all Options, which Options shall thereafter once again become available for grant under the Plan.

9.3 Other Termination. In the event a Participant's employment or service as a Director is terminated for reasons other than death, Disability, Retirement or Disqualifying Termination, the following provisions shall apply:

- (a) Treatment of Plan Shares. The Participant will be credited with all Plan Shares which are Fully Paid as of the date of employment termination or termination of service as a Director. The number of Plan Shares which are Fully Paid for as of such date shall be determined according to the guidelines set forth in Section 9.1(a) hereof. All outstanding Plan Shares which are not Fully Paid as of the date of employment termination or termination of service as a Director shall be forfeited to the Company and shall once again become available for purchase under the Plan.

Plan Shares which have been delivered to a Participant prior to employment termination or termination of service as a Director shall not be affected by this provision.

- (b) Treatment of Stock Options. Upon such a termination, a Participant shall forfeit (i) all Options for which the requirements of Article 8 (if applicable) have not been met, and (ii) all other Options granted to the Participant under the Plan which do not constitute Covered Options.

Covered Options for which the requirements of Article

8 (if applicable) have been met may be exercised by the Participant within the period beginning on the effective date of employment termination or termination of service as a Director, and ending three (3) months after such date.

ARTICLE 10. RIGHTS OF PARTICIPANTS

Nothing in the Plan shall interfere with or limit in any way the right of the Company to terminate any participating Employee's employment at any time or to dismiss any participating Director at any time, nor confer upon any Participant any right to continue in the employ of the Company or as a Director of the Company.

ARTICLE 11. CHANGE IN CONTROL

If the Board so determines at any time, the following provisions shall apply if a Change in Control occurs after such determination:

- (a) Any and all Options granted hereunder corresponding to Fully Paid Shares (as determined by the Plan Administrator) shall become immediately exercisable (and shall remain exercisable throughout their entire term); all other Options granted hereunder shall be forfeited to the Company;
- (b) The Company shall deliver all Plan Shares which are Fully Paid as of the effective date of the Change in Control (the Plan Administrator shall have the authority to determine the number of Plan Shares which are Fully Paid as of such date subject to Section 6.4 hereof, and to establish procedures for the delivery of such Shares to Participants), and all remaining Plan Shares shall be forfeited to the Company; and
- (c) Subject to the other provisions of this Plan, the Committee shall have the authority to make any modifications to the Plan Shares and Options as are determined by the Committee to be appropriate before the effective date of the Change in Control.

ARTICLE 12. AMENDMENT, MODIFICATION AND TERMINATION

12.1 Amendment. Modification and Termination. With the approval of the Board, at any time and from time to time, the Committee may terminate, amend or modify the Plan. Any such termination shall be effective with respect to all

subsequent Window Periods.

12.2 Awards Previously Granted. No termination, amendment or modification of the Plan shall adversely affect in any material way any Plan Share previously purchased or Option previously granted under the Plan, without the written consent of the Participant holding such Plan Share or Option.

ARTICLE 13. WITHHOLDING

13.1 Tax Withholding. The Company shall have the power and the right to deduct or withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy Federal, state, and local taxes (including the Participant's FICA obligation) required by law to be withheld with respect to any taxable event arising as a result of this Plan.

13.2 Share Withholding. With respect to withholding required upon the exercise of Options, upon the purchase of Plan Shares, or upon any other taxable event hereunder, Participants may elect, subject to the approval of the Committee, to satisfy the withholding requirement, in whole or in part, by having the Company withhold Shares having a Fair Market Value on the date the tax is to be determined equal to the minimum statutory total tax which could be imposed on the transaction. All elections shall be irrevocable, made in writing, signed by the Participant, and comply with all procedures established by the Committee for Share withholding.

In addition, subject to the approval of the Committee, Participants may satisfy the tax withholding obligation arising as a result of any taxable event occurring hereunder, by remitting to the Plan Administrator previously held Shares having an aggregate Fair Market Value on the date the tax is to be determined equal to the minimum statutory total tax which could be imposed on the transaction; provided, however, that any Shares which are so tendered must have been beneficially owned by the Participant for at least six (6) months prior to the date of their tender.

ARTICLE 14. INDEMNIFICATION

Each person who is or shall have been a member of the Committee, the Board, or the Plan Administrator, and each agent retained by the Plan Administrator, shall be, indemnified and held harmless by the Company against and from any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by him or her in connection with or resulting from any claim, action, suit, or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action taken in good faith or any good faith failure to act under the Plan and against and from any and all amounts paid by him or her in settlement thereof, with the Company's approval, or paid by him or her in satisfaction of any judgment in any such action, suit, or proceeding against him or her, provided he or she shall give the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled under the Company's Certificate of

Incorporation or By-Laws, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

ARTICLE 15. SUCCESSORS

All obligations of the Company under the Plan, with respect to Plan Shares purchased and Options granted hereunder, shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company.

ARTICLE 16. LEGAL CONSTRUCTION

16.1 Gender and Number. Except where otherwise indicated by the context, any masculine term used herein also shall include the feminine, the plural shall include the singular and the singular shall include the plural.

16.2 Severability. In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

16.3 Requirements of Law. The purchase of Plan Shares, the granting of Options, and the issuance of Shares under the Plan, shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

16.4 Governing Law. To the extent not pre-empted by Federal law, the Plan, and all agreements hereunder, shall be construed in accordance with and governed by the laws of the State of New Jersey.

Exhibit 10.8

VITAL SIGNS, INC.
20 CAMPUS ROAD
TOTOWA, NEW JERSEY 07512

May 23, 1996

Mr. Terence D. Wall
Vital Signs, Inc.
20 Campus Road
Totowa, NJ 07512

Dear Terry:

In consideration of your agreeing to cancel the stock option previously granted to you pursuant to the Vital Signs, Inc. 1993 Executive Officer Stock Option Plan to purchase 120,000 shares of this Corporation's Common Stock (the "Prior Option"), on May 23, 1996, you were granted an option to purchase 120,000 shares of this Corporation's Common Stock, at an exercise price of \$22.25 per share. The terms of your stock option are as follows:

1. Vesting. This option shall vest as follows:

(a) 25% (30,000 shares) on May 23, 1998, another 25% (30,000 shares) on May 23, 1999, another 25% (30,000 shares) on May 23, 2000 and another 25% (30,000 shares) on May 23, 2001.

(b) Notwithstanding any provision herein to the contrary, this option shall automatically vest and be fully exercisable at such time as a "Change in Control Event" occurs. For purposes of this option, a "Change in Control Event" shall mean any of the following events:

- (i) the acquisition by any one person, or more than one person acting as a group, of ownership of stock of the Corporation, other than any person or group of persons who held such total voting power on May 23, 1996, possessing 33-1/3% or more of the total voting power of the capital stock of the Corporation;
- (ii) the approval by the stockholders of the Corporation of (i) any consolidation or merger of the Corporation, in which the holders of voting stock of the Corporation immediately before the consolidation or merger will not own 50% or more of the voting shares of the continuing or surviving corporation immediately after

such consolidation or merger, or (ii) any sale, lease, exchange or other transfer (in one transaction or series of related transactions) of all or substantially all of the assets of the Corporation; or

(iii) a change of 50% (rounded to the next whole percent) in the membership of the Board of Directors within a

12-month period, unless the election or nomination for election by stockholders of each new director within such period was approved by the vote of 80% (rounded to the next whole person) of the directors then still in office who were in office at the beginning of the 12-month period.

2. Non-Qualified. Your option constitutes a non-qualified stock option, as distinct from an "incentive stock option".

3. Expiration. Except as otherwise provided in Section 7 hereof, this option will expire and cease to be exercisable on May 23, 2006.

4. Exercise. Unless the exercise date of this option is accelerated upon the occurrence of a Change in Control Event, as set forth in Section 1(b) hereof, or pursuant to Section 9 hereof, this option shall become exercisable only to the extent set forth in Section 1(a) hereof.

5. Exercise Price. The price at which shares of Common Stock may be purchased upon exercise of this options is \$22.25.

6. Method of Exercise. To the extent permitted by Section 4 hereof, you may exercise this option from time to time by giving written notice to the Corporation. The date of exercise shall be the date on which the Corporation receives such notice. Such notice shall be on a form furnished by the Corporation and shall state the number of shares to be purchased and the desired closing date, which date shall be at least fifteen days after the giving of such notice, unless an earlier date shall have been mutually agreed upon. At the closing, the Corporation shall deliver to you (or other person entitled to exercise the option) at the principal office of the Corporation, or such other place as shall be mutually acceptable, a certificate or certificates for such shares against payment in full of the exercise price for the number of shares to be delivered, such payment to be by a certified or bank cashier's check and/or by transfer to the Corporation of capital stock of the Corporation having a "Fair Market Value" (as defined below) on the date of exercise equal to the excess of the purchase price for the shares purchased over the amount (if any) of the certified or bank cashier's check. If you (or other person entitled to exercise the option) shall fail to accept delivery of and pay for all or any part of the shares specified in your notice when the Corporation shall tender such shares to you, your right to exercise the option with respect to such unpurchased shares may be terminated. For purposes of this option, "Fair Market

Value" shall mean the fair market value of the Common Stock on the relevant date. If on such date the Common Stock is listed on a stock exchange or is quoted on the automated quotation system of NASDAQ, the Fair Market Value shall be the closing sale price (or if such price is unavailable, the average of the high bid price and the low asked price) on such date. If no such closing sale price or bid and asked prices are available, the Fair Market Value shall be determined in good faith by the Board of Directors of the Corporation in accordance with generally accepted valuation principles and such other factors as the Board reasonably deems relevant.

7. Termination of Employment. In the event that you cease to be employed by the Corporation for any reason other than cause, death or disability, your option shall automatically terminate three months after the date on which such employment terminates, but in any event not later than the date on which such options would terminate pursuant to Section 3 hereof. In the event that your employment is terminated by means of a resolution which recites that you are being removed solely for cause, your option shall automatically terminate on the date such termination is effective. In the event that you cease to be employed by the Corporation by reason of death or disability, your option, to the extent exercisable by you, shall terminate one year after the date of your death or disability, but in any event not later than the date on which such option would terminate pursuant to Section 3 hereof. During such time after death, this option may only be exercised by your representative, executor or administrator, as the case may be. No exercise permitted by this Section 7 shall entitle you or your personal representative, executor or administrator to exercise any portion of the option beyond the extent to which such option is exercisable pursuant to Section 4 hereof on the date you ceased to be employed by the Corporation.

8. Changes in Capital Structure. In the event that, by reason of a stock dividend, recapitalization, reorganization, merger, consolidation, reclassification, stock split-up, combination of shares, exchange of shares, or comparable transaction occurring on a date subsequent to May 23, 1996, the outstanding shares of Common Stock of the Corporation are hereafter increased or decreased, or changed into or exchanged for a different number or kind of shares or other securities of the Corporation or of any other corporation, then the Board of Directors of the Corporation shall make appropriate adjustments to the number and kind of shares subject to this option, and the purchase price per share under this option shall be appropriately adjusted consistent with such change. In no event shall fractional shares be issued or issuable pursuant to any adjustment made under this Section 8. The determination of the Board as to any such adjustment shall be final and conclusive.

9. Mandatory Exercise. Notwithstanding anything to the contrary set forth herein, in the event the Corporation should adopt a plan of complete liquidation, the Corporation may give you written notice thereof requiring you either (a) to exercise this option (as to all shares covered hereby, including those not yet vested) within thirty days after receipt of such notice, or (b) to surrender this option or any unexercised portion thereof. If the Corporation requests that this option be exercised and if it shall not have been exercised

in accordance with such 30-day period, then this option shall automatically lapse irrevocably and you shall have no further rights with respect to this option.

10. Documents. The Board of Directors may require you, as a condition to the exercise of your option or the issuance or delivery of shares upon the exercise of your option or the payment therefor, to make such representations and warranties and to execute and deliver such notices of exercise and other documents as the Board may deem consistent with the terms and conditions of this option. Not in limitation of any of the foregoing, in any such case referred to in the preceding sentence the Board may also require you to execute and deliver documents (including the investment letter described in Section 11), containing such representations, warranties and agreements as the Board or counsel to the

Corporation shall deem necessary or advisable to comply with any exemption from registration under the Securities Act of 1933, as amended, any applicable State securities laws, and any other applicable law, regulation or rule.

11. Investment Letter. If required by the Board, you shall agree to execute a statement directed to the Corporation, upon each and every exercise by you of any part of this option, that shares issued thereby are being acquired for investment purposes only and not with a view to the redistribution thereof, and containing an agreement that such shares will not be sold or transferred unless either (1) registered under the Securities Act of 1933, as amended, or (2) exempt from such registration in the opinion of Corporation counsel. If required by the Board, certificates representing shares of Common Stock issued upon exercise of your option shall bear a restrictive legend summarizing the restrictions on transferability applicable thereto.

12. Requirements of Law. The issuance of shares upon the exercise of your option and the delivery of shares upon the payment therefor shall be subject to compliance with all applicable laws, rules, and regulations. Without limiting the generality of the foregoing, the Corporation shall not be obligated to sell, issue or deliver any shares unless all required approvals from governmental authorities and stock exchanges shall have been obtained and all applicable requirements of governmental authorities and stock exchanges shall have been complied with.

13. Tax Withholding. The Corporation, as and when appropriate, shall have the right to require you to pay any federal, state, or local taxes required by law to be withheld.

14. Nonassignability. This option shall not be assignable or transferable by you except by will or the laws of descent and distribution, in which event the terms of this option, including all restrictions and limitations set forth herein, shall continue to apply to the transferee. During your lifetime, no person other than you may exercise this option.

15. Your Rights as a Shareholder and Board Member. You shall have no rights

as a shareholder of the Corporation with respect to any shares subject to this option until the option has been exercised and the certificate with respect to the shares purchased upon exercise of the option has been duly issued and registered in your name. Nothing in this option shall be deemed to give you any right to a continued position on the Board nor shall it be deemed to give you or any other person any right not specifically and expressly provided herein.

16. Termination and Amendment. The Board may at any time terminate or amend this option as it may deem advisable, except that no such termination or amendment shall adversely affect you with respect to any right which has accrued under this option prior to such termination or amendment.

17. Sunday or Holiday. In the event that the time for the performance of any action or the giving of any notice is called for under this option within a period of time which ends or falls on a Sunday or legal holiday, such period shall be deemed to end or fall on the next date following such Sunday or legal holiday which is not a Sunday or legal holiday.

18. Condition. This option is granted subject to approval by the shareholders of the Corporation prior to May 23, 1998.

If you have any questions concerning this option, please do not hesitate to contact me. If you desire to exercise this option in the future, please contact Liz Greenberg to obtain the necessary exercise form. Please acknowledge the cancellation of your Prior Option and your acceptance of the terms of this option by signing below.

Of course, I want to congratulate you on your receipt of this stock option.

Very truly yours,

/s/ Anthony J. Dimun

Anthony J. Dimun
Executive Vice President

I hereby agree to the cancellation all rights which I may have under the Prior Option, and accept the terms and provisions of the option described above, effective May 23, 1996.

/s/ Terence D. Wall

Terence D. Wall

VITAL SIGNS, INC.
20 CAMPUS ROAD

May 23, 1996

Mr. Barry Wicker
Vital Signs, Inc.
20 Campus Road
Totowa, NJ 07512

Dear Barry:

In consideration of your agreeing to cancel the stock option previously granted to you pursuant to the Vital Signs, Inc. 1993 Executive Officer Stock Option Plan to purchase 80,000 shares of this Corporation's Common Stock (the "Prior Option"), on May 23, 1996, you were granted an option to purchase 80,000 shares of this Corporation's Common Stock, at an exercise price of \$22.25 per share. The terms of your stock option are as follows:

1. Vesting. This option shall vest as follows:

(a) 25% (20,000 shares) on May 23, 1998, another 25% (20,000 shares) on May 23, 1999, another 25% (20,000 shares) on May 23, 2000 and another 25% (20,000 shares) on May 23, 2001.

(b) Notwithstanding any provision herein to the contrary, this option shall automatically vest and be fully exercisable at such time as a "Change in Control Event" occurs. For purposes of this option, a "Change in Control Event" shall mean any of the following events:

- (i) the acquisition by any one person, or more than one person acting as a group, of ownership of stock of the Corporation, other than any person or group of persons who held such total voting power on May 23, 1996, possessing 33-1/3% or more of the total voting power of the capital stock of the Corporation;
- (ii) the approval by the stockholders of the Corporation of (i) any consolidation or merger of the Corporation, in which the holders of voting stock of the Corporation immediately before the consolidation or merger will not own 50% or more of the voting shares of the continuing or surviving corporation immediately after such consolidation or merger, or (ii) any sale, lease, exchange or other transfer (in one transaction or series of related transactions) of all or substantially all of the assets of the Corporation; or
- (iii) a change of 50% (rounded to the next whole percent) in the membership of the Board of Directors within

a 12-month period, unless the election or nomination for election by stockholders of each new director within such period was approved by the vote of 80% (rounded to the next whole person) of the directors then still in office who were in office at the beginning of the 12-month period.

2. Non-Qualified. Your option constitutes a non-qualified stock option, as distinct from an "incentive stock option".

3. Expiration. Except as otherwise provided in Section 7 hereof, this option will expire and cease to be exercisable on May 23, 2006.

4. Exercise. Unless the exercise date of this option is accelerated upon the occurrence of a Change in Control Event, as set forth in Section 1(b) hereof, or pursuant to Section 9 hereof, this option shall become exercisable only to the extent set forth in Section 1(a) hereof.

5. Exercise Price. The price at which shares of Common Stock may be purchased upon exercise of this options is \$22.25.

6. Method of Exercise. To the extent permitted by Section 4 hereof, you may exercise this option from time to time by giving written notice to the Corporation. The date of exercise shall be the date on which the Corporation receives such notice. Such notice shall be on a form furnished by the Corporation and shall state the number of shares to be purchased and the desired closing date, which date shall be at least fifteen days after the giving of such notice, unless an earlier date shall have been mutually agreed upon. At the closing, the Corporation shall deliver to you (or other person entitled to exercise the option) at the principal office of the Corporation, or such other place as shall be mutually acceptable, a certificate or certificates for such shares against payment in full of the exercise price for the number of shares to be delivered, such payment to be by a certified or bank cashier's check and/or by transfer to the Corporation of capital stock of the Corporation having a "Fair Market Value" (as defined below) on the date of exercise equal to the excess of the purchase price for the shares purchased over the amount (if any) of the certified or bank cashier's check. If you (or other person entitled to exercise the option) shall fail to accept delivery of and pay for all or any part of the shares specified in your notice when the Corporation shall tender such shares to you, your right to exercise the option with respect to such unpurchased shares may be terminated. For purposes of this option, "Fair Market Value" shall mean the fair market value of the Common Stock on the relevant date. If on such date the Common Stock is listed on a stock exchange or is quoted on the automated quotation system of NASDAQ, the Fair Market Value shall be the closing sale price (or if such price is unavailable, the average of the high bid price and the low asked price) on such date. If no such closing sale price or bid and asked prices are available, the Fair Market Value shall be determined in good faith by the Board of Directors of the Corporation in accordance with generally accepted valuation principles and such other factors as the Board reasonably deems relevant.

7. Termination of Employment. In the event that you cease to be employed by the Corporation for any reason other than cause, death or disability, your option shall automatically terminate three months after the date on which such employment terminates, but in any event not later than the date on which such options would terminate pursuant to Section 3 hereof. In the event that your employment is terminated by means of a resolution which recites that you are being removed solely for cause, your option shall automatically terminate on the date such termination is effective. In the event that you cease to be employed by the Corporation by reason of death or disability, your option, to the extent exercisable by you, shall terminate one year after the date of your death or disability, but in any event not later than the date on which such option would terminate pursuant to Section 3 hereof. During such time after death, this option may only be exercised by your representative, executor or administrator, as the case may be. No exercise permitted by this Section 7 shall entitle you or your personal representative, executor or administrator to exercise any portion of the option beyond the extent to which such option is exercisable pursuant to Section 4 hereof on the date you ceased to be employed by the Corporation.

8. Changes in Capital Structure. In the event that, by reason of a stock dividend, recapitalization, reorganization, merger, consolidation, reclassification, stock split-up, combination of shares, exchange of shares, or comparable transaction occurring on a date subsequent to May 23, 1996, the outstanding shares of Common Stock of the Corporation are hereafter increased or decreased, or changed into or exchanged for a different number or kind of shares or other securities of the Corporation or of any other corporation, then the Board of Directors of the Corporation shall make appropriate adjustments to the number and kind of shares subject to this option, and the purchase price per share under this option shall be appropriately adjusted consistent with such change. In no event shall fractional shares be issued or issuable pursuant to any adjustment made under this Section 8. The determination of the Board as to any such adjustment shall be final and conclusive.

9. Mandatory Exercise. Notwithstanding anything to the contrary set forth herein, in the event the Corporation should adopt a plan of complete liquidation, the Corporation may give you written notice thereof requiring you either (a) to exercise this option (as to all shares covered hereby, including those not yet vested) within thirty days after receipt of such notice, or (b) to surrender this option or any unexercised portion thereof. If the Corporation requests that this option be exercised and if it shall not have been exercised in accordance with such 30-day period, then this option shall automatically lapse irrevocably and you shall have no further rights with respect to this option.

10. Documents. The Board of Directors may require you, as a condition to the exercise of your option or the issuance or delivery of shares upon the exercise of your option or the payment therefor, to make such representations and warranties and to execute and deliver such notices of exercise and other documents as the Board may deem consistent with the terms and conditions of this option. Not in limitation of any of the foregoing, in any such case referred to in the preceding sentence the Board may also require you to execute and deliver documents (including the investment letter described in Section 11), containing

such representations, warranties and agreements as the Board or counsel to the Corporation shall deem necessary or advisable to comply with any exemption from registration under the Securities Act of 1933, as amended, any applicable State securities laws, and any other applicable law, regulation or rule.

11. Investment Letter. If required by the Board, you shall agree to execute a statement directed to the Corporation, upon each and every exercise by you of any part of this option, that shares issued thereby are being acquired for investment purposes only and not with a view to the redistribution thereof, and containing an agreement that such shares will not be sold or transferred unless either (1) registered under the Securities Act of 1933, as amended, or (2) exempt from such registration in the opinion of Corporation counsel. If required by the Board, certificates representing shares of Common Stock issued upon exercise of your option shall bear a restrictive legend summarizing the restrictions on transferability applicable thereto.

12. Requirements of Law. The issuance of shares upon the exercise of your option and the delivery of shares upon the payment therefor shall be subject to compliance with all applicable laws, rules, and regulations. Without limiting the generality of the foregoing, the Corporation shall not be obligated to sell, issue or deliver any shares unless all required approvals from governmental authorities and stock exchanges shall have been obtained and all applicable requirements of governmental authorities and stock exchanges shall have been complied with.

13. Tax Withholding. The Corporation, as and when appropriate, shall have the right to require you to pay any federal, state, or local taxes required by law to be withheld.

14. Nonassignability. This option shall not be assignable or transferable by you except by will or the laws of descent and distribution, in which event the terms of this option, including all restrictions and limitations set forth herein, shall continue to apply to the transferee. During your lifetime, no person other than you may exercise this option.

15. Your Rights as a Shareholder and Board Member. You shall have no rights as a shareholder of the Corporation with respect to any shares subject to this option until the option has been exercised and the certificate with respect to the shares purchased upon exercise of the option has been duly issued and registered in your name. Nothing in this option shall be deemed to give you any right to a continued position on the Board nor shall it be deemed to give you or any other person any right not specifically and expressly provided herein.

16. Termination and Amendment. The Board may at any time terminate or amend this option as it may deem advisable, except that no such termination or amendment shall adversely affect you with respect to any right which has accrued under this option prior to such termination or amendment.

17. Sunday or Holiday. In the event that the time for the performance of any action or the giving of any notice is called for under this option within a period of time which ends or falls on a Sunday or legal holiday, such period

shall be deemed to end or fall on the next date following such Sunday or legal holiday which is not a Sunday or legal holiday.

18. Condition. This option is granted subject to approval by the shareholders of the Corporation prior to May 23, 1998.

If you have any questions concerning this option, please do not hesitate to contact me. If you desire to exercise this option in the future, please contact Liz Greenberg to obtain the necessary exercise form. Please acknowledge the cancellation of your Prior Option and your acceptance of the terms of this option by signing below.

Of course, I want to congratulate you on your receipt of this stock option.

Very truly yours,

/s/Anthony J. Dimun

Anthony J. Dimun
Executive Vice President

I hereby agree to the cancellation all rights which I may have under the Prior Option, and accept the terms and provisions of the option described above, effective May 23, 1996.

/s/ Barry Wicker

Barry Wicker

EXHIBIT 10.9

AGREEMENT

This AGREEMENT, dated as of the 20th of September, 1996, by and between Ridgewood Investment Associates ("Ridgewood"), and Vital Signs, Inc. ("VSI"),

WITNESSETH:

WHEREAS, VSI owns the shares of capital stock of Cardiologics LLC, described in Exhibit A annexed hereto (the "Shares" and desires to sell the Shares to Ridgewood; and

WHEREAS, Ridgewood desires to purchase the Shares from VSI in accordance with the terms set forth herein,

NOW, THEREFORE, in consideration of the mutual covenants set forth herein, the parties hereto hereby agree as follows:

1. Purchase and Sale. At a closing to be held concurrent with the execution of this Agreement, VSI hereby sells to Ridgewood the Shares as indicated on Exhibit A annexed hereto for the purchase price of \$1,000,000. In addition, Ridgewood shall reimburse VSI for the amounts described in Section 3. Concurrently with the execution of this Agreement, Ridgewood hereby delivers to VSI promissory notes as indicated in Exhibit B in full satisfaction of the purchase price of the Shares.

2. Ridgewood hereby agrees to assume all commitments, representations and warranties set forth in the Investment Agreement dated January 19, 1996 between VSI and Steven Kontos ("the Agreement") reflecting the understanding between such parties as to their relationship with respect to Cardiologics LLC. Ridgewood hereby agrees to indemnify and hold VSI harmless for any and all liabilities relating to the Agreement.

3. Ridgewood hereby agrees to reimburse VSI for all funds expended by VSI through the closing date pursuant to the Agreement. Furthermore, Ridgewood and VSI agree to an orderly transition period whereby the activities of Cardiologics will be permitted to continue under the relationship with VSI established in January 1996. Ridgewood agrees to reimburse VSI for all fully documented expenditures paid by VSI on behalf of Cardiologics beyond the closing date. VSI and Ridgewood shall mutually agree on the time table for an orderly transition period.

4. Warranties and Representations. VSI hereby warrants and represents to Ridgewood that it owns the Shares, and is hereby transferring the Shares, free and clear of all liens, security interests, pledges, encumbrances and restrictions whatsoever.

5. Assignment. VSI hereby assigns to Ridgewood, all such rights that VSI has as a shareholder of Cardiologics LLC, including without limitation, all such rights that exist pursuant to the Agreement described in Section 2 above. If, for any reason, such agreements and/or applicable instruments or laws preclude VSI from transferring record ownership of the Shares, VSI shall use its best efforts to effect appropriate amendments to any such amendable agreements or instruments and, in any event, shall confer upon Ridgewood all economic and other rights and benefits associated with ownership of the Shares.

6. Further Assurances. VSI shall, at its expense, take any and all further steps as shall be required to effect the transfer of the Shares in the manner contemplated by this Agreement.

In WITNESS WHEREOF, the undersigned have executed this Agreement as of the date first set forth above.

/s/ Terence D. Wall

Terence D. Wall, President
Vital Signs, Inc.

/s/ Frank DeBernardis

Frank DeBernardis
General Partner
Ridgewood Investment Associates

/s/ Anthony J. Dimun

Witness Anthony J. Dimun
Executive Vice President &
Secretary, Vital Signs, Inc.

EXHIBIT A

Shares	Description
5,100 units representing 51% of the total LLC membership units and capital.	Cardiologics LLC, a limited liability company organized under the laws of the State of New Jersey in January, 1996.

Exhibit B

SECURED PROMISSORY NOTE

Ridgewood Investment Associates promises to pay, in lawful monies of the United States of America, to the order of Vital Signs, Inc. (the "Holder"), the principal sum of One Million Dollars (\$1,000,000), together with interest, at 20 Campus Road, Totowa, New Jersey 07512 or such other place as the Holder may designate.

1. Interest. Interest will accrue on the unpaid principal balance from today's date at the rate of eight percent (8%) per annum and will be due and payable on the due dates. If the Obligor fails to make payment in full on the Due Date, then interest will accrue on the unpaid balance from the Due Dates, at the Default Rate which shall be equal to the lesser of: (i) twelve percent (12%) per year, or (ii) the maximum rate of interest allowed by applicable law.
2. Security. As security for the Obligor's obligation under this Note and other indebtedness of the Obligor to the Holder, the Obligor is granting the holder a security interest in certain investments as described in a Security Agreement between the Obligor and the Holder dated today's date. If the Obligor fails to pay this Note on the due date, the Holder may exercise all of the Obligor's rights and remedies afforded a secured creditor under the Security Agreement in accordance with New Jersey law.
3. Due Dates. The "Due Dates" shall be the dates of repayment of amounts due hereunder or such other date specified for repayment in writing by the Holder. Such Due Dates are as follows:
 - a) On or before January 2, 1997 - \$500,000
On or before April 1, 1997 - \$500,000
 - b) Amounts due pursuant to Section 3 of the Agreement dated September 20, 1996 shall be due on demand as demanded by the Holder.
4. Collection Costs and Expenses. The Obligor agrees to pay all costs and expenses, including reasonable attorneys' fees, incurred by the Holder in effecting collection of all amounts due under this Note or in enforcing the Security Agreement. All such costs and expenses shall be added to the principal amount due under this Note, and shall bear interest at the Default Rate provided for in Paragraph 1 of this Note.
5. No Waiver by Lender. Any delay or failure by the Holder in taking any action or exercising any remedy shall not prevent the Holder from doing so later, and shall not act as a waiver of any of the Holder's rights under this Note.

6. Borrower' Waivers. The Obligor waives presentment for payment, demand, notice of protest, notice of dishonor and any other notices or demands in connection with the delivery, acceptance, payment, performance or enforcement of this Note, except for demands for payment pursuant to paragraph 3 above. In any action or proceeding brought by the Holder to collect any amount due under this Note or otherwise arising out of or in connection with this Note or the Security Agreement, the Obligor waives trial by jury and the Holder by acceptance of this Note also waives trial by jury.
7. Governing Law. This Note is made and delivered in accordance with New Jersey (U.S.A.) law and New Jersey (U.S.A.) law controls with respect to any interpretation and/or enforcement. For purposes of this Note, Obligor (i) agrees to accept personal jurisdiction in New Jersey (U.S.A.), (ii) agrees that exclusive venue for any and all litigation shall be in New Jersey (U.S.A.), (iii) waives any claim of lack of jurisdiction or inconvenient forum, and (iv) agrees that any judgement rendered in favor of the Holder may be enforced where the Maker's assets are located.

RIDGEWOOD INVESTMENT ASSOCIATES

By: /s/Frank DeBernardis

Frank DeBernardis

SECURITY AGREEMENT

THIS SECURITY AGREEMENT (the "Agreement") is made as of the 20th day of September, 1996 by and between Ridgewood Investment Associates, a partnership organized and existing under the laws of New Jersey (the "Debtor"), and Vital Signs, Inc. (the "Secured Party").

W I T N E S S E T H:

WHEREAS, Debtor has executed in favor of Secured Party that certain Promissory Note dated the date hereof in the original principal amount of U.S. \$1,000,000.00 (the "Note"); and

WHEREAS, to secure the punctual payment of the principal and interest payable under the Note and any other sums owed from the Debtor to the Secured Party (such principal, interest and other sums being hereunder referred to as the "Obligations"), the Secured Party has requested, and the Debtor has agreed to grant, a security interest in the collateral (as hereinafter defined);

NOW THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Grant of Security Interest. As collateral security for the due and punctual payment in full of the Obligations, the Debtor hereby grants and conveys to the Secured Party a first perfected interest in investments set forth in Exhibit A (hereafter referred to as the "Collateral"). The security interest granted hereby shall terminate upon the payment in full of all of the Obligations.

2. Representations, Warranties and Covenants. The Debtor represents, warrants and covenants to and with the Secured Party as follows:
 - (a) Except for the security interest granted hereunder, all of existing Collateral is owned by Debtor free and clear of all liens and encumbrances and Debtor will keep the collateral free and clear of all liens and encumbrances so long as this Agreement is in force with respect thereto.
 - (b) Debtor shall pay and discharge when due all taxes, assessments and governmental charges of every kind upon it or its properties which, if unpaid, might by law become a lien or charge upon its respective properties.
 - (c) Debtor shall not sell, transfer or otherwise dispose of, or remove any of the items of property which comprise the Collateral without the prior written consent of the Secured party.

3. Default, Rights and Remedies. If any default (including any failure to pay timely when due, at maturity, by acceleration or otherwise) shall occur hereunder or under the Note, or then Secured Party shall have the right upon written notice to Debtor to declare this Agreement to be in default and thereafter shall have (i) all rights and remedies provided by law, including those of a secured party under the Uniform Commercial Code, in addition to the rights and remedies provided for herein or in any other agreement between Debtor and Secured Party, (ii) the right to declare any or all of the Obligations due and payable, without presentment, demand, protest or notice of any kind, all of which are hereby expressly waived, (iii) the right to dispose of the Collateral and exercise any and all rights and remedies afforded Secured Party under any and all applicable provisions of the law, (iv) the right to notify account debtors to make payments directly to the Secured Party and/or (v) the right to enter upon the premises on which the Collateral is located, inspect the Collateral, to take possession thereof and any records related thereto, demand and receive such possession from the Debtor or any person or organization which has possession thereof, and to take such measures as the Secured Party may deem necessary or proper for the care of protection thereof, including the right to remove all or any portion, to sell or cause to be sold, at public or private sales, in one or more sales or parcels, all or any portion of the Collateral without notice of intention to sell or of time or place of sale; provided, however, that Secured Party shall give the Debtor ten days' prior written notice of the time and place of any proposed sale or sales and such

other notice as may be required by applicable laws. Any disposition of the Collateral pursuant hereto shall be made in a manner which is commercially reasonable within the meaning of the Uniform Commercial Code as in effect in the jurisdiction or jurisdictions where the Collateral is located. All of Secured Party's rights, remedies and benefits herein expressly specified shall be cumulative and not exclusive of any other rights, remedies or benefits which the Secured Party may have under this Agreement, at law or otherwise.

4. Application of Proceeds. All proceeds from the sale of the Collateral by Secured Party hereunder shall be applied first, against the cost of such sale or collection, second, against any amounts due and owing under the Notes or the Fee Agreement, third, to any other sums due by Debtor to Secured Party, and fourth, to Debtor or as a court of competent jurisdiction may otherwise direct.
5. Notices. Any notice, request, demand or other communication required or permitted hereunder shall be given in writing, by certified or registered mail, postage prepaid, or delivered to the last known addresses of the parties hereto (or at such other address or in care of such other person as hereafter shall be designated in writing by any party to the other party).
6. Miscellaneous. This Agreement contains the entire agreement of the parties hereto respecting the subject matter thereof. Every provision of this Agreement is intended to be severable, and, if any term or provision is determined to be illegal or invalid for any reasons whatsoever, such illegality or invalidity shall not affect the validity of the remainder of this Agreement. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, legal representatives, successors and assigns. This Agreement shall be governed by and construed in accordance with the laws of the State of New Jersey. Any failure or delay by the Secured Party to require strict performance by Debtor of any of the provisions, warranties, terms and conditions contained herein or in any other agreement, document or instrument shall not affect Secured Party's right to demand strict compliance and performance therewith, and any waiver of any default shall not affect or constitute waiver of any other default.

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date and year first above written.

RIDGEWOOD INVESTMENT ASSOCIATES

By: /s/Frank DeBernardis

By: /s/Terence D. Wall

Frank DeBernardis

Terence D. Wall,
President
Vital Signs, Inc.

Witnessed By:

/s/Anthony J. Dimun

Anthony J. Dimun
Executive Vice President
Vital Signs, Inc.

GUARANTEE

THIS GUARANTEE ("Guarantee"), dated as of _____, 1996, given by Terence D. Wall, residing at 160 Lloyd Road, Montclair, New Jersey 07042 ("Wall") to Vital Signs, Inc., a New Jersey corporation having its principal place of business at 20 Campus Road, Totowa, New Jersey 07512 ("VSI"),

WITNESSETH THAT:

WHEREAS, Ridgewood Investment Associates ("Ridgewood") has previously delivered to VSI a secured promissory note, dated September 20, 1996, in the principal amount of \$1,000,000 (the "Note"), in connection with VSI's sale to Ridgewood of all of its equity interest in Cardilogics, LLC ("Cardilogics");

WHEREAS, Wall has agreed to guarantee Ridgewood's obligations under the Note;

NOW THEREFORE, Wall agrees as follows:

1. SCOPE OF THE GUARANTEE. Wall hereby guarantees the performance by Ridgewood of all of the terms of the Note.

2. IRREVOCABILITY. This Guarantee shall be irrevocable at all times through and including such time as the Note is fully paid in accordance with its terms, regardless of any defense, offset or counterclaim which may at any time be available to or be asserted by Ridgewood, it being the purpose and intent of Wall that this Guarantee and his obligations hereunder shall remain in full force and effect and be binding on Wall and his successors until such Note is fully paid in accordance with its terms.

3. SECONDARY LIABILITY. Wall's liability hereunder shall be secondary to Ridgewood's liability under the Note. Wall shall be required to perform any and all obligations of Ridgewood under the Note upon receipt of written notice from VSI, stating that Ridgewood has failed to perform such obligation and has failed to cure such obligation within ten days after written notice to Ridgewood.

4. GOVERNING LAW. This Guarantee shall be governed by the laws of the State of New Jersey excluding the application of conflicts of laws principles.

5. WAIVER. Wall hereby waives any right of notice that he would otherwise have with respect to any amendment to the Note that may be agreed upon in writing by Ridgewood and VSI subsequent to the date hereof.

IN WITNESS WHEREOF, Wall has executed this Guarantee as of the date first set forth above.

/s/ Terence D. Wall

Terence D. Wall

EXHIBIT 21.1

Name of Subsidiary	Jurisdiction of Incorporation
Actar Airforce, Inc.	Canada
Coast Medical, Inc.	Delaware
EchoCath, Inc.	New Jersey (20% owned)
HealthStar Pharmaceutical Services, Inc.	Delaware
Mediziv Medical Products, Inc.	Israel
Thomas Medical Products, Inc.	Pennsylvania
Vital Signs California	California
Vital Signs Sales Corporation	Delaware
Vital Signs GmbH	Germany
Vital Signs Limited	United Kingdom
Vital Signs MN, Inc. (formerly Biomedical Dynamics Corporation)	Minnesota
Vital Signs (N) FDM BBO	Malaysia

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

We hereby consent to the incorporation of our report dated November 14, 1996 included in this Form 10-K, into the Company's previously filed Registration Statements on Form S-8 (Nos. 33-40586, 33-43702, 33-47298, 33-73800 and 333-9705).

Goldstein Golub Kessler & Company, P.C.

New York, New York

December 27, 1996

POWER OF ATTORNEY

WHEREAS, the undersigned officers and directors of Vital Signs, Inc. desire to authorize Terence D. Wall, Anthony J. Dimun and Barry Wicker, to act as their attorneys-in-fact and agents, for the purpose of executing and filing the Corporation's Annual Report on Form 10-K for the year ended September 30, 1996, including all amendments thereto,

NOW, THEREFORE,

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Terence D. Wall, Anthony J. Dimun and Barry Wicker and each of them, his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, to sign the Corporation's Annual Report on Form 10-K for the year ended September 30, 1996, including any and all amendments thereto, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully and to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned have executed this power of attorney in the following capacities on this 23rd day of December, 1996.

SIGNATURE

TITLE

/s/Terence D. Wall

Terence D. Wall

President, Chief Executive Officer and Director

/s/David J. Bershad

David J. Bershad

Director

/s/Anthony J. Dimun

Anthony J. Dimun

Executive Vice President, Chief Financial Officer, Treasurer and Director (Chief Financial and Accounting Officer)

/s/Joseph J. Thomas

Joseph J. Thomas

Director

/s/John Toedtman

John Toedtman

Director

/s/ Barry Wicker

Barry Wicker

Executive Vice President and Director

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