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**

for the fiscal year ended December 31, 2004,

or

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

MERIT MEDICAL SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

Securities registered pursuant to Section 12(g) of the Act:
Title of Class**:** Common Stock, No Par Value

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in rule 12b-2 of the Act). Yes ☒ No o

The aggregate market value of the Common Stock held by non–affiliates of the Registrant, on June 30, 2004, which is the last day of the Registrant's most recently completed second fiscal quarter (based upon the closing sale price of the Common Stock on the NASDAQ National Market System on June 30, 2004), was approximately $390 million. Shares of Common Stock held by each officer and director and by each person who may be deemed to be an affiliate have been excluded.

As of March 10, 2005, the Registrant had 26,500,865 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following document are incorporated by reference in Part III of this Report: the Registrant's definitive Proxy Statement relating to the Annual Meeting of Shareholders scheduled for May 25, 2005.

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PART I

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This report includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical fact are "forward-looking statements" for purposes of these provisions, including any projections of earnings, revenues or other financial items, any statements of the plans and objectives of management for future operations, any statements concerning proposed new products or services, any statements regarding future economic conditions or performance, and any statements of assumptions underlying any of the foregoing. All forward-looking statements included in this report are made as of the date hereof and are based on information available to the Company as of such date. The Company assumes no obligation to update any forward-looking statement. In some cases, forward-looking statements can be identified by the use of terminology such as "may," "will," "expects," "plans," "anticipates," "intends," "believes," "estimates," "potential," or "continue," or the negative thereof or other comparable terminology. Although the Company believes that the expectations reflected in the forward-looking statements contained herein are reasonable, there can be no assurance that such expectations or any of the forward-looking statements will prove to be correct, and actual results could differ materially from those projected or assumed in the forward-looking statements. Future financial condition and results of operations, as well as any forward-looking statements are subject to inherent risks and uncertainties, including market acceptance of the Company's products, product introductions, potential product recalls, delays in obtaining regulatory approvals, cost increases, fluctuations in and obsolescence of inventory, price and product competition, availability of labor and materials, development of new products and techniques that could render the Company's products obsolete, product liability claims, foreign currency fluctuations, changes in health care markets related to health care reform initiatives, and other factors referred to in the Company's press releases and reports filed with the Securities and Exchange Commission (the "SEC"). All subsequent forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by these cautionary statements. Additional factors that may have a direct bearing on the Company's operating results are described under "Factors That May Affect Future Results" beginning on page 14.

Item 1. Business.

GENERAL

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

The Company's strategy is to offer a broad line of innovative, disposable products for diagnosis and intervention in radiology and cardiology. Merit continues to increase market acceptance and penetration for both its existing and new products in the United States and in international markets. Longer term, the Company's strategy is to extend the application of its sensor–based technologies, plastics molding, catheter, guide wire, and electronic capabilities and to develop products for diagnostic and interventional procedures in additional markets such as neuroradiology, nephrology, pain management and critical care. The Company's sales of stand-alone products in combination with custom kits have increased as additions have been made to the Company's product lines. In 2004, approximately 47% of the Company's sales were made directly to U. S. hospitals and approximately 27% of sales were made to custom packagers, distributors and original equipment manufacturers ("OEM") companies. Approximately 25% of the Company's sales in 2004 were made in international markets. Approximately 1% of sales were non-medical, including sensors.

The Company was organized in July 1987 as a Utah corporation. In July 1994, the Company purchased a controlling interest in Merit Sensor Systems, Inc. (formerly Sentir, Inc.), a California-based manufacturer of silicon sensors, and during 1999, the Company purchased the remaining interest in Merit Sensor Systems, Inc. The Company also established subsidiaries in Ireland, Germany, France, the United Kingdom, Belgium, and the Netherlands to conduct international business. In January 1997, the Company purchased the operating assets and product lines of Universal Medical Instruments Corp. ("UMI"). In August 1999, the Company purchased the operating assets and product lines of the Angleton, Texas division of Mallinckrodt Inc. ("Mallinckrodt"). In 2000, the Company purchased the assets of Elecath (Electo Catheter Corp.). In November 2004, the Company purchased substantially all of the assets of MedSource Packaging Concepts LLC ("MedSource"). Unless otherwise specified or evident from the context, references to the Company include its consolidated subsidiaries. The Company's principal offices are located in manufacturing and office facilities at 1600 West Merit Parkway, South Jordan, Utah, 84095, and its telephone number is (801) 253–1600. See "Item 2. Properties."

PRODUCTS

The Company's products have been designed and developed in response to the needs of customers and patients. These needs have been identified primarily through observation of procedures in cardiac catheterization and radiology laboratories, consultation with the Company's medical advisors and consultants and direct communication with customers. Since 1988, the Company has developed and introduced several product lines, including the following:

- coronary control syringes (CCS™, Smart Tip™ Inject8™, and Inject10™);
- inflation devices (IntelliSystem®, Monarch®, Basix®, BasixCOMPAK™ including new 30-atmosphere versions), and monitors (IntelliSystem® and IntelliSystem II™);
- specialty syringes (Medallion® and VacLok®);
- high-pressure tubing and connectors (Excite™, flexible, braided, rigid, PVC, and Sherlock™);
- waste management products (Merit Disposal Depot™, Backstop®, MDD600™, MiniStop™, ShortStop®, and Dugout®);
- disposable blood pressure transducer (Meritrans®); and pressure monitoring tubing;
- disposable hemostasis valves and accessories (MAP™, MBA™, Passage®, Access 9™, Access Plus™, Double-Play™, RXP™) and guide wire torque devices;
- manifolds and stopcocks (Marquis® series);
- radial artery compression systems (Radstat™);
- contrast management systems (Miser® and In Line Contrast Management System™, drip sets and spikes);
- angiography needles and accessories (Majestik® series, Majestik® Shielded Needle, Captiva®, ShortStop®, and A.S.K. Merit Safety Access Kits™);
- drainage catheters and accessories (Resolve®, One Step™ and StayFix™);
- pericardiocentesis catheters and procedure trays;
- thrombolytic infusion catheters (Fountain® and Mistique®) and accessories (Squirt®);
- diagnostic angiographic pigtail catheters, diagnostic cardiology and radiology catheters (SofTouch® and Performa®), and marker band catheters;
- guide catheters (Trax®);
- sheath introducers (DialEase™, registered trademark of Thomas Medical, Merit® MAK), and vessel dilators, fixed and movable core;
- diagnostic guide wires (Inqwire®), and accessories (Keep™ and Ringmaster™), and hydrophilic guide wires, (Merit® H_20);
- pressure infusor bags;
- and procedure trays.

These products are sold separately, and many are sold in custom kits consisting primarily of selected combinations of products.

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

The following paragraphs briefly describe and provide other information regarding Merit's key products:

Inflation Devices and Angioplasty Accessories. Inflation devices are large, specialized syringes used in interventional catheterization procedures to inflate balloon-tipped catheters. Each of the Company's inflation devices incorporates patented, proprietary design features which contribute to ease of use, including allowing the clinicians to engage or release the syringe plunger with one hand while increasing or decreasing pressure. Each syringe also provides a clear view of the fluid path that simplifies debubbling and contributes to accurate measurement of pressure.

The Company's IntelliSystem® inflation device, which was the first such device to incorporate electronic sensing and display features, consists of a disposable 20cc inflation syringe and an internal pressure transducer which connects to a monitor outside of the sterile field. The IntelliSystem® monitor measures, times, records, and digitally displays information concerning the pressure, duration and number of each inflation and deflation of the angioplasty balloon. The Company believes that electronic sensing and display of such information is much more accurate and precise than that which can be obtained from conventional analog gauges. The data is stored and may be retrieved, displayed, graphed, and printed.

In 2003, Merit launched the patented IntelliSystem II™ color monitor, an advanced balloon inflation system. It gives physicians several desirable options, including a large touch screen, an instant readout of positive and negative pressures, and an enlarged graphing display to show subtle changes in pressure measurements. In addition, the readouts are available in four languages by touching the screen. Management believes that Merit is the only company with digital technology sensitive enough to show subtle changes in pressure.

The Monarch® is a disposable inflation device that digitally displays data concerning pressure and duration of inflations and deflations on a small digital readout mounted on the barrel of the inflation syringe. The small monitor does not offer the same display, storage or printing capabilities of the IntelliSystem® & IntelliSystem II™, but offers the convenience of portable, digital operation. In 2003, Merit launched a 30-atmosphere version of the Monarch® to provide clinicians with additional options.

The Basix® and the BasixCOMPAK™ are disposable inflation syringes that incorporate conventional analog pressure gauges mounted on the barrels of inflation syringes. The Basix® more closely resembles devices marketed by the Company's competitors but includes the Company's proprietary design features and benefits. The Company believes that the Basix® and BasixCOMPAK™ represent a significant addition to its line of inflation devices and will contribute to increased sales where both clinical outcomes and price are a priority.

Hemostasis Valves. The MBA™, Passage®, AccessPlus™, Access 9™, and Double Play™, hemostasis valves are used in conjunction with the Company's inflation devices and as a component of the Company's angioplasty packs. These valves are made of polycarbonate plastic for clarity and include Sherlock™ connectors. The devices differ in size and function. The MBA™ features a valve mechanism that minimizes blood loss during exchange of wires, catheters and other tools through the valve. The Access Plus™ and Access 9™ are large-bore configurations. The Double Play™ incorporates a double "Y" configuration for kissing-balloon techniques.

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

Coronary Control Syringes. The Company's disposable control syringes are utilized for one–handed control of the injection of contrast media and other fluids during angiography, angioplasty, and stent placement. (A stent is a device that is inserted into a vessel or passage to keep it open and prevent closure due to stricture or external pressure). Control syringes are molded from polycarbonate material, which is tougher than glass and most other plastics used in the medical products industry. The Company offers different models and sizes of the control syringes with varying features, according to physician preference. These features include different configurations of syringe handles, plungers, and

connectors which allow operation of the syringe in a fixed or rotating position and varying volume sizes. In response to customer requests, all Merit control syringes are latex-free.

Specialty Syringes. Merit's Medallion® syringes, a line of disposable, latex-free, color-coded specialty syringes, are used for injection of medications, flushing manifolds and other general purposes. The 60ml VacLok® syringe is used to create negative pressure. There are many clinical applications for a negative pressure syringe, including abscess drainage and biopsy, balloon preparation, nephrostomy drainage, and more. These syringes are molded of polycarbonate material for added strength and are available in hundreds of sizes, colors and custom printing combinations. The color-coding minimizes medication errors by allowing clinicians to assign a color for each medication to be dispensed and to differentiate syringes by their contents. The syringes also can be custom printed to the specifications of the user. The Company believes that the design, color-coding and materials used in its specialty syringes contribute to patient safety and more efficient procedures. The specialty syringes are sold separately and are an important component of the Company's custom kits.

Marquis™ Series Stopcock. The Company's Marquis™ Series Stopcock offers improvements to competitive stopcock devices, including a large, easy-grip handle. The Marquis™ Series Stopcock is used in connection with Sherlock™ connectors to provide improved connections during procedures. Stopcocks are manufactured in numerous design configurations and styles, including 1-way, 3-way, 4-way, 50 pounds per square inch ("psi") to 1050 psi, on and off handles, fixed luer, rotating luer, and slip luer.

Large-Bore Stopcock. The Large-Bore Stopcock is designed to facilitate movement of fluid. The large internal diameter (0.120") is designed for moving drainage fluid from the body. Like all Merit stopcocks, the large-bore version incorporates a clear body for easy visualization and a large, easy-to-manipulate handle.

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

High-Pressure Contrast Injection Line. During angiographic and diagnostic radiology procedures, contrast media must be injected through a catheter into a patient's artery or vein. This is sometimes accomplished by a mechanical injector which can generate pressures up to 1200 psi, and requires tubing that can withstand these pressures. The Company offers high-pressure, braided and clear, specialty tubing with proprietary Sherlock™ connectors. Excite™ is a line of clear, flexible, high-pressure tubing that combines the features of tubing clarity and strength. The connectors allow coupling and

uncoupling of tubing with injectors, syringes and manifolds without over-tightening or breaking. The Company is currently offering specialty tubing that can handle pressures ranging from 500 to 1200 psi. The specialty tubing is an important component of custom kits.

RadStat™ Radial Artery Compression Device. The RadStat™ Radial Artery Compression Device is intended to be used to apply direct pressure to the radial artery puncture site after diagnostic and interventional procedures. In addition to rapid controlled hemostasis, the RadStat™ immobilizes the wrist comfortably, permitting a patient's rapid return to ambulation.

Waste Containment Systems. Because of heightened awareness of the risks associated with blood and related waste materials, hospitals have moved toward closed systems whenever possible. To address these concerns, the Company has designed a waste containment bag which connects to a manifold in a closed system and collects waste materials such as blood and other fluids during angioplasty or other procedures. The Merit Disposal Depot™ is self-contained for ease of disposal and reduces the risk of contamination. The Backstop® is a unique and proprietary alternative fluid disposal basin designed to reduce exposure to blood-borne pathogens. The DugOut®, a large volume (1000 ml) line extension to the Backstop®, also contains an additional compartment for the storage of accessories.

Contrast Management Systems. The Miser™ and the In Line Contrast Management System™ have been designed to increase catheterization lab efficiencies by reducing contrast media waste. This small system helps hospitals save thousands of dollars a year in wasted contrast.

Majestik® Angiographic Needles. The angiography needle creates the percutaneous (through the skin) access site for virtually all invasive diagnostic and interventional procedures performed in cardiology and radiology. The needle provides the initial point of entry site for the introducer sheath, guide wires, catheters and any other diagnostic and interventional devices. The Merit Majestik® needle helps physicians achieve precise vascular access with one of the sharpest angiography needles on the market.

Majestik® Shielded Angiography Needles. The Needlestick Safety and Prevention Act passed by the United States Congress in November 2000 requires healthcare employers to document their exposure control plan and evaluate safety-engineered products to protect clinicians. In 2002, Merit launched a new line of shielded, 18-gauge angiography introducer needles designed to meet the requirements of the law. Merit's management believes the Majestik® shielded needle is one of the first safety-engineered devices designed to promote safer needles in cardiology and radiology. A.S.K. Merit Safety Access Kits™ were launched in early 2003 and include protected scalpels and needles used for vascular access.

Fountain® and Mistique® Infusion Catheters. Vascular occlusion is a common anomaly that affects millions of patients each year. Both the Fountain® and the Mistique® catheters deliver therapeutic solutions to dissolve thrombolytic occlusions (blood clots) in peripheral arteries, hemodialysis grafts and deep veins. The Fountain® catheter utilizes an occluding wire to effectively block off the end hole and direct the infusion therapy uniformly through the laser-drilled side holes. The Mistique® is designed to be used over standard 0.035 or 0.038 guide wires to block off the end hole and direct the infusion therapy uniformly through the side holes.

Squirt® Fluid Dispensing System. The Squirt® fluid dispensing system is a unique and proprietary product designed specifically for therapeutic infusion of controlled, accurate and consistent fluid delivery. Some Fountain catheter configurations contain a Squirt® system packaged with them.

DialEase® Introducer Sheath. The DialEase® Introducer Sheath (a registered trademark of Thomas Medical) is a short introducer ideally suited for dialysis graft intervention. It is commonly used in conjunction with the Fountain® and Mistique® therapeutic infusion catheters to declot dialysis grafts.

InQwire® Diagnostic Guide Wires. Guide wires consist of a small-diameter wire tightly wrapped in a coated wire coil. The technology needed to produce these wires is considerable, and Merit utilizes its guide wire center of excellence in Ireland to manufacture the InQwire® Diagnostic Guide Wire. Guide wires vary in length, outside diameter and tip configuration, and are used to place either a diagnostic or therapeutic catheter into a patient's cardiovascular system. In late 2003, Merit launched a line of hydrophilic guide wires (Merit® H_20).

RingMaster™. The RingMaster™ guide wire basin allows clinicians to conveniently store guide wires to maintain sterility and organization. It separates wires for quick selection, uses less table space than conventional basins because it is stackable, and helps keep wires hydrated throughout the procedure.

Vessel Dilators. Dilators are used to dilate puncture sites. They are commonly used in radiology and cardiology over an 0.035" or 0.038" guide wire to dilate the site prior to placing sheaths and catheters in the femoral artery.

Pericardiocentesis Kit. On occasion, the pericardial sac surrounding the heart becomes filled with blood or fluid. To remove the fluid and the potential for heart strangulation (tamponade), a catheter is placed in the pericardial sac to drain the excess fluid. Merit offers a complete pericardiocentesis kit that combines a high-flow drainage catheter with all components needed to place the device in the pericardial sac. The kit combination saves physicians both time and money by having all components in one convenient tray.

One-Step™ Centesis Catheter. The One Step™ centesis catheter is intended to be used for short-term centesis procedures. It incorporates a luer-locked introducer needle for secure, one-handed placement. The tip of the introducer needle is echogenically enhanced for visualization during ultrasound-guided placement. The transition between the catheter and needle is smooth to facilitate insertion. In 2003, Merit launched a new line of safety kits including the One-Step centesis catheter.

Resolve® Universal Drainage Catheter with Non-Locking Pigtail. The Resolve® Universal Drainage Catheter with non-locking pigtail is a standard drainage catheter designed to expand Merit's offering of drainage products.

StayFix™ – Catheter Fixation Device. StayFix™ is a one-piece catheter tube securing device and site dressing for percutaneous drainage sites. The product provides a comfortable, low-profile fixation device for catheters and tubes. The device is used in interventional radiology, special procedures, cardiology, urology, home health care, and skilled nursing facilities.

MDD600™. The Merit Disposal Depot™ is specifically designed to temporarily collect fluids. It incorporates a drainage spout for quick and easy fluid disposal, and an internal anti-reflux valve to help prevent fluid from backing up the line. The bag also comes packaged with an adjustable velcro strap that can be used to attach the device to the patient's waist or leg.

Meritrans® Pressure Transducer and Accessories. Diagnostic blood pressure monitoring is a critical priority in virtually all diagnostic and interventional procedures. The Meritrans® provides clinicians with reliable and precise blood pressure measurement. The clear flow-through design makes flushing and debubbling simple and safe. The transducer is a vital component of many custom kit configurations. Pressure Monitoring Tubing and Stopcocks are common ancillary products to complement the Meritrans®. Merit provides several reusable accessories to support the Meritrans®. The Merit Mentor™ is a transducer calibration and troubleshooting device that insures accuracy and repeatability of physiologic pressure measurements. Reusable transducer cables connect the Meritrans® to the bedside monitor. Organizing brackets hold multiple transducers to beds and IV poles.

Pressure Infusor Bag. Merit's pressure infusor bags include proprietary over-pressure relief valves. These devices are used hospital-wide to apply pressure to a sealed bag of fluid, such as IV solutions or blood products. The pressure exerted is shown by a color-coded pressure gauge, and the device has a valve that releases pressure to prevent inadvertent over-pressurization.

ShortStop®. The ShortStop®, a small, temporary sharps container with an adhesive base that fits on the back table in a clinical lab, is used for the temporary containment of needles, scalpels and other sharp tools to help prevent inadvertent clinician injury.

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

Universal Fluid Dispensing Syringe. Merit's digital inflation devices (IntelliSystem® and Monarch® products) allow for a wide range of additional clinical applications such as discography, esophageal dilatation, trigeminal nerve compression, and retinal detachment. Universal fluid dispensing syringes incorporate patented, proprietary design features which contribute to ease of use, including allowing the clinicians to engage or release the syringe plunger with one hand while increasing or decreasing pressure. Each syringe also provides a clear view of the fluid path that simplifies debubbling and contributes to accurate measurement of pressure. When used in clinical applications such as discography, the IntelliSystem® accurately dispenses fluid while documenting and graphing pressures in the disc. The Company believes that electronic sensing display of such information is much more accurate and precise than the tactile feel of standard syringes and that of conventional analog gauges. The data is stored and may be retrieved, displayed, graphed, and printed.

Diagnostic Cardiology Catheters. Cardiac catheterization is performed to diagnose the nature, severity, and precise location of blockages and other abnormalities of the heart. This technique represents the most essential diagnostic tool in the management of patients with cardiovascular disease. The Company manufactures and sells a complete line of diagnostic catheters used for these procedures.

Diagnostic Radiology Catheters. Radiology catheters are engineered and designed with distinct tip configurations to access specific vessels and organs outside the heart (head, kidneys, legs, etc). Merit acquired a radiology catheter product portfolio from Mallinckrodt's Angleton division in 1999.

Angiography Pigtail Catheter. Merit's thin-wall, Teflon® (a registered trademark of DuPont), high-flow, pigtail angiographic catheters are designed for smaller patients.

Vessel-Sizing Catheters. Merit's complete line of adult vessel-sizing catheters are used by radiologists to measure the internal diameters and lengths of blood vessels under fluoroscopy. Procedures in which these catheters are used include angioplasty, embolization, abdominal aortic aneurysm (AAA) stent-grafts and vena cava filter placements. Merit also offers pediatric vessel-sizing catheters .

Guide Catheters. Coronary angioplasty requires guiding catheters to place balloons within the vasculature. Catheters are inserted through sheaths into the arterial system. Once in place, guiding catheters act as conduits for guide wires, dilating balloon catheters, coronary stents, and radiopaque dye that is used to provide fluoroscopic visualization during procedures.

MARKETING AND SALES

Target Market/Industry. Cardiovascular disease continues to be a leading health problem in the United States. According to American Heart Association estimates, nearly 60 million Americans, or approximately 25% of the population, have one or more types of cardiovascular disease. Cardiovascular disease accounts for an estimated one million deaths annually, more than 40% of the U.S. total. A majority of the Company's sales revenues is derived from products used in coronary angiography and angioplasty procedures designed to treat cardiovascular disease. The Company believes that transcatheter modalities (products and technologies utilizing heart catheterization procedures) such as balloons, bare metal and drug eluding stents, and defect repair currently represent the greatest potential to diagnose and treat the disease. The Company intends to build upon its existing market position in both catheter technology and accessory products to continue its sales growth.

The global market for transcatheter products stands at a major crossroad, even when considering the continued dynamic evolution in vascular stent placement. The core diagnostic and therapeutic applications for basic transcatheter technologies (balloons, stents and defect repair) are well established, with the future growth of procedures and products dependent upon demographic trends. This has not, however, prevented significant investment in new technologies and applications designed to enhance patient outcomes and enable the treatment of new populations that have been traditionally limited to surgical intervention. Much of this additional investment relates to procedures, devices and drugs for the treatment and prevention of coronary artery disease that have been developed and are currently being used by physicians. These procedures, devices and drugs include laser angioplasty, atherectomy procedures and drug therapies, the effect of which may be to render certain of the Company's products obsolete or to limit the markets for Merit's products. However, with the advent of vascular stents and other procedures, such as discography and kyphoplasty, the Company has experienced continued growth in its proprietary inflation technology. The Company is monitoring trends in the industry and believes it is in a position to launch catheters and accessories to support growing clinical applications.

There are a large number of projects focused on improving the diagnosis of cardiovascular disease, improving the issue of restenosis and other less invasive alternatives to open-heart surgery. In recent years researchers have focused their interests on technologies and products that support the growth of transcatheter approaches to reducing the morbidity and mortality of cardiovascular disease, including drug-coated stents, radiated stents and balloons, anti-platelet therapy, gene therapy, percutaneous coronary thrombectomy, and transmyocardial revascularization. One area of specific interest to the Company is transradial catheterization, which is the introduction of vascular catheters through the radial artery, allowing a patient's rapid return to ambulation, which ultimately reduces total patient cost. The Company plans to continue to develop and launch innovative products to support these clinical trends.

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

When a product suggestion demonstrates sustainable competitive advantage, meets customer needs, fits strategically and technologically with the Company's business, and has a good potential financial return, a "project team" is chartered with individuals from the Company's marketing, engineering, manufacturing, legal, and quality assurance departments. This team identifies the customer requirements, integrates the design, compiles all necessary

documentation and testing, and prepares the product for market introduction. The Company strongly believes that one of its marketing strengths is its capacity to rapidly conceive, design, develop, and introduce new products.

U. S. Sales. The Company's direct sales force currently consists of a vice president of sales, an executive sales manager, six regional sales managers and 49 direct sales representatives located in major metropolitan areas throughout the United States. The Company's sales people are trained by personnel at the Company's facilities, by a senior sales person in their respective territories, at regular national and regional sales meetings, by consulting cardiologists and employees of the Company, and by observation of procedures in catheterization laboratories.

International Sales. Approximately 100 independent dealer organizations distribute the Company's products worldwide, including territories in Europe and Asia. The Company has appointed a vice president for international sales and established an international sales and distribution office in Maastricht, The Netherlands. Approximately 17 direct sales representatives presently sell the Company's products in Germany, France, the United Kingdom, Belgium, Netherlands, and Ireland. In 2004, the Company's international sales grew by 10% and accounted for approximately 25% of total sales. With the recent and planned additions to its product lines, the Company believes that its international sales will continue to increase.

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

OEM Sales. The Company currently has an OEM division that sells molded components, sub-assembled goods, and bulk non-sterile goods, which may be combined with other components and/or goods from other companies and then sold under a Merit or non-Merit label. Merit has both international and domestic OEM sales.

CUSTOMERS

The Company serves hospital-based cardiologists, radiologists, anesthesiologists, physiatrists (pain management physicians), neurologists, technicians, and nurses, all of whom influence the purchasing decision for Merit's products. Hospitals and acute care facilities in the United States purchase the Company's products through the Company's direct sales force, distributors, OEM relationships, custom packagers and packers who assemble and combine products in custom kits and packs. Outside the United States, customers (hospitals and acute care facilities) purchase through the Company's direct sales force, or in the absence of a sales force, purchase through independent distributors or OEM relationships.

In 2004, approximately 47% of the Company sales were made directly to domestic hospitals, approximately 14% to custom tray manufacturers and domestic dealers, approximately 25% to international markets, and approximately 1% were non-medical. Sales to the Company's single largest customer, a packer, accounted for approximately 7% of total sales during the year ended December 31, 2004. Merit manufactures products for other medical device companies through its OEM program. During the year ended December 31, 2004, OEM sales represented approximately 13% of Merit's total revenue, which included 3% purchased by international OEM companies.

RESEARCH AND DEVELOPMENT

The Company believes that one of its historic strengths is its ability to quickly adapt its expertise and experience in injection molding, insert molding, catheter extrusion, guide wire assembly, and electronic and sensor technologies, and apply these core competencies to a perceived need for a new product or product improvement. The Company's development efforts are presently focused on disposable, innovative single-patient or single-use items, which can be included in the Company's custom kits or sold separately.

The Company's executive officers devote a portion of their time to research and development. Research and development expenses were $5,118,851, $4,626,459, and $4,007,622 in 2004, 2003, and 2002, respectively. The Company did not conduct any customer-sponsored research and development during those periods. The Company anticipates that its research and development expenses will range between approximately 3% and 4% of net sales during the year ending December 31, 2005.

MANUFACTURING

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

molding technologies in the manufacture of most of the custom components used in its products.

The electronic monitors and sensors used in the Company's IntelliSystem® and Monarch® inflation devices are assembled from standard electronic components or purchased from suppliers. In July 1994, the Company acquired a 73% interest, and in August 1999, the Company acquired the remaining interest in Merit Sensor Systems, Inc., which develops and markets silicon sensors. Merit Sensor Systems, Inc. is presently providing virtually all of the sensors utilized by the Company in its digital inflation devices.

The Company's products are manufactured at several facilities including South Jordan, Utah; Santa Clara, California; Galway, Ireland; Angleton, Texas and a leased expansion facility in Murray, Utah. With the acquisition of MedSource in November 2004, the Company's manufacturing has expanded to a new facility in Richmond, Virginia. See "Item 2. Properties."

Merit's variety of suppliers for raw materials and components necessary for the manufacture of its products, as well as its long-term relationships with such suppliers, promote stability in its manufacturing process. Historically, Merit has not been materially affected by interruptions with such suppliers. Further, Merit has developed contingency plans to engage back-up suppliers, materials and components in the event of supply interruptions.

COMPETITION

The Company competes in the domestic and international radiology and cardiology markets, which encompass a large number of suppliers of many different sizes. The Company competes with more than 30 different companies. These firms include small firms, such as Possis Medical and Microtherapeutics; medium-sized companies like Cook, Arrow, and Angio Dynamics; and large, international, multi-supply medical companies, such as Johnson & Johnson, Boston Scientific, Guidant, Medtronic, and C.R. Bard. Many of the Company's competitors have substantially greater financial, technical, and marketing resources than the Company.

The principal competitive factors in the markets in which the Company's products are sold are quality, performance, service, breadth of line, and price. The Company believes that its products have achieved rapid market acceptance due, in part, to the quality of materials and workmanship, innovative design, ease of operation, and the Company's prompt attention to customer inquiries. The Company's products are priced competitively, but generally not below prices for competing products. One of the Company's primary competitive strengths is a comprehensive, broad line of ancillary products used in both cardiology and radiology.

The Company's management believes, based on available industry data with respect to the number of procedures performed, that it is one of two market leaders in the United States for control syringes, tubing, and manifold kits (together with NAMIC USA Corporation, a subsidiary of Boston Scientific), and is the world market leader for inflation devices and hemostasis accessories. The Company's management also believes that the recent and planned additions to the Merit product lines will enable Merit to compete more effectively in both U.S. and international markets. The Company's new IntelliSystem® II color monitor provides considerable improvements, including sensitivity in Merit's existing, patented digital technology. Management believes the Company is the only provider of digital inflation technology in the world. There is no assurance, however, that the Company will be able to maintain its existing competitive advantages or compete successfully in the future.

A substantial majority of the Company's revenues are presently derived from sales of products used in diagnostic angiography and interventional angioplasty procedures. Other procedures, devices, and drugs for the treatment and prevention of cardiovascular disease have been developed and are currently being used, including laser angioplasty, atherectomy procedures, and drug therapies, the effect of which may be to render certain of the Company's products obsolete or to limit the markets for its products. However, with the advent of vascular stents and other procedures such as discography, the Company has experienced continued growth in its proprietary inflation technology.

PATENTS, LICENSES, TRADEMARKS AND COPYRIGHTS

The Company considers its proprietary technology to be important in the development and manufacture of its products and seeks to protect its technology through a combination of patents, trademarks, trade secrets, copyrights, and confidentiality agreements with its employees and others. Merit generally seeks patent protection of its technology in the United States and certain foreign countries where such protection appears to be available and appropriate. Merit has received 95 issued U.S. and foreign patents, and other U.S. and foreign patent applications are currently pending. Eight U.S. patents were issued to Merit during 2003 and 2004. These patents are directed to the following innovations: U.S. Patent No. 6,508,789 is directed to an innovative drainage catheter design; U.S. Patent No. 6,533,757 is directed to a further improvement to Merit's INTELLISYSTEM® II system for monitoring and displaying pressurization data; U.S. Patent No. 6,537,266 is directed to an innovative puncture guard for catheter wires; U.S. Patent No. 6,547,072 is directed to Merit's innovative RINGMASTER™ stackable guidewire basins; U.S. Patent No. 6,572,590 is directed to an innovative hemostasis valve having a quick release lever; U.S. Patent No. 6,719,017 is directed to Merit's DUGOUT® disposal basin; U.S. Patent No. 6,800,069 is directed to an innovative modularized infusion pump having a pressure infuser bag, a manual pump, and a removable, motorized pump, together with connectors that allow the different elements of the system to be added and removed as needed; and U.S. Patent No. 6,814,427 is directed to innovative systems and methods for accurately measuring fluids, such as contrast media, as the fluids are dispensed from a rigid or semi-rigid container.

The Company deems its patents and pending patent applications to be materially important to its business but does not believe its business is dependent on securing such patents. Merit is also licensed under certain patents, patent applications, technology, trade secrets, know-how, copyrights and/or trademarks owned by others. Merit believes, however, that no single patent, patent application, technology, trade secret, know-how, copyright, trademark, or license is material in relation to Merit's business as a whole.

Although certain of the Company's key patents will expire in 2008 and other patents will expire thereafter, the Company expects that related products will continue to be valuable, in part because of proprietary innovations made since the issue of the initial patent. In 1992, the Company negotiated a license with respect to patents concerning technology utilized in its IntelliSystem® and Monarch® inflation devices, in consideration of a 5.75% ongoing royalty, not to exceed $450,000 annually. Royalties paid in each of 2004, 2003, and 2002 were $450,000.

While the Company has obtained U.S. patents and filed additional U.S. and foreign patent applications, there can be no assurance that issued patents will provide the Company with any significant competitive advantages, or will not be challenged by third parties, or that the patents of others will not have an adverse effect on the ability of the Company to conduct its business. The Company could incur substantial costs in seeking enforcement of its patents against infringement or the unauthorized use of its proprietary technology by others or in defending itself against similar claims of others. Since the Company relies

on trade secrets and proprietary know-how to maintain its competitive position, there can be no assurance that others may not independently develop similar or superior technologies.

The Company operates in an increasingly complex and challenging medical technology marketplace. There has also been substantial litigation regarding patent and other intellectual property rights in the medical device industry. There are risks that the Company's activities may require it to defend itself against claims and actions alleging infringement of the intellectual rights of others and adverse determinations in any patent litigation could subject Merit to significant liabilities to third parties, could require Merit to seek licenses from third parties, and could conceivably prevent Merit from marketing certain products, any of which could have a material adverse effect on the Company.

The Company has also registered or applied for registration of several trade names or trademarks. See "Products" above. Merit has received 118 issued U.S. and foreign trademark registrations, and other U.S. and foreign trademark applications are currently pending. The Company also places copyright notices on its instructional and advertising materials and has registered copyrights relating to certain software used in its electronic inflation devices.

REGULATION

The development, testing, packaging, labeling, and marketing of medical devices and the manufacturing procedures relating to these devices are regulated under the Federal Food, Drug and Cosmetic Act and additional regulations promulgated by the FDA. In general, these statutes and regulations require that manufacturers adhere to certain standards designed to ensure the safety and effectiveness of medical devices. The Company employs a Vice

President of Regulatory Affairs and a Vice President of Quality Systems who are responsible for compliance with all applicable FDA regulations. Although the Company believes it is currently in material compliance with these requirements, the Company's business could be adversely affected by a failure to comply with all applicable FDA and other government regulations presently existing or promulgated in the future.

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

New medical devices may also be subject to either the Section 510(k) Pre-Market Notification regulations or the Pre-Market Approval ("PMA") regulations promulgated by the FDA and similar regulatory authorities in foreign countries. New products in either category require extensive documentation, careful engineering and manufacturing controls to ensure quality. Products needing PMA approval require extensive pre-clinical and clinical testing and approval by the FDA prior to marketing. Products subject to the Section 510(k) of the Federal Food Drug and Cosmetic Act require FDA clearance prior to marketing. To date, the Company's products have required only compliance with Section 510(k). The Company's products are subject to foreign regulatory approvals before they may be marketed abroad. The Company places the "CE" mark on devices and products sold in Europe. The Company has received ISO 13485 certification for its Utah and Texas facilities. The Company has received EN ISO 13485 certification for its Galway, Ireland facility. The Company has also received ISO 9002 certification for its Merit Sensor Systems, Inc. facility in Santa Clara, California.

EMPLOYEES

As of December 31, 2004, the Company employed 1,307 people, including 995 in manufacturing, 124 in sales and marketing, 96 in engineering, research and development, and 92 in administration.

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

AVAILABLE INFORMATION

The Company files annual, quarterly and current reports and other information with the SEC. These materials can be inspected and copied at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of these materials may also be obtained by mail at prescribed rates from the SEC's Public Reference Room at the above address. Information about the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The address of the SEC's Internet site is www.sec.gov.

The Company makes available, free of charge, on its Internet website, located at www.merit.com, its most recent Annual Report on Form 10-K, its most recent Quarterly Report on Form 10-Q, any current reports on Form 8-K filed since the Company's most recent Annual Report on Form 10-K and any amendments to such reports as soon as reasonably practicable following the electronic filing of such report with the SEC. In addition, the Company provides electronic or paper copies of its filings free of charge upon request.

FINANCIAL INFORMATION ABOUT FOREIGN AND DOMESTIC OPERATIONS AND EXPORT SALES

For financial information relating to the Company's foreign and domestic sales, transfers between geographic areas, net income and identifiable assets, see Note 11 to the Company's consolidated financial statements set forth in Item 8 of this report.

FACTORS THAT MAY AFFECT FUTURE RESULTS

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

The Company's products may be subject to recall or product liability claims.

Merit's products are used in connection with invasive procedures and in other medical contexts in which it is important that those products function with precision and accuracy. If the Company's products do not function as designed, or are designed improperly, the Company may be forced by regulatory agencies to withdraw such products from the market. In addition, if medical personnel or their patients suffer injury as a result of any failure of the Company's products to function as designed, or an inappropriate design, the Company may be subject to lawsuits seeking significant compensatory and punitive damages. Any product recall or lawsuit seeking significant monetary damages may have a material adverse effect on the Company's business and financial condition.

Substantially all of Merit's products are backed by a limited warranty for returns due to defects in quality and workmanship. Merit maintains a reserve for these future returned products, but the actual costs of such returns may significantly exceed the reserve, which could have a material adverse effect on the Company's financial condition.

Termination of relationships with the Company's suppliers, or failure of such suppliers to perform, could disrupt the Company's business.

Merit relies on raw materials, component parts, finished products, and services supplied by outside third parties in connection with its business. For example, substantially all of the Company's products are sterilized by two entities. In addition, some of the Company's products are manufactured or assembled by third parties. If a supplier of significant raw materials, component parts, finished goods or services were to terminate its relationship with the Company, or otherwise cease supplying raw materials, component parts, finished goods or services consistent with past practice, the Company's ability to meet its obligations to its end customers may be disrupted. A disruption with respect to numerous products, or with respect to a few significant products, could have a material adverse effect on the Company's business and financial condition.

The Company may be unable to compete in its markets, particularly if there is a significant change in relevant practices and technology.

The market for each of the Company's existing and potential products is highly competitive. The Company faces competition from many companies, many of which are larger, better established and have greater financial, technical and other resources and greater market presence than Merit. Such resources and market presence may enable the Company's competition to more effectively market competing products or to market competing products at reduced prices in order to gain market share.

In addition, Merit's ability to compete successfully is dependent, in part, upon the Company's ability to respond effectively to changes in technology and to develop and market new products which achieve significant market acceptance. Competing companies with substantially greater resources than the Company are actively engaged in research and development of diagnostic and interventional methods, treatments and procedures that could limit the market for the Company's products and eventually make certain products obsolete. A reduction in the demand for a significant number of the Company's products, or a few key products, could have a material adverse effect on the Company's business and financial condition.

The Company may be unable to protect its proprietary technology or may infringe on the proprietary technology of others.

The Company's ability to remain competitive is dependent, in part, upon its ability to prevent other companies from using its proprietary technology incorporated into its products. The Company seeks to protect its technology through a combination of patents and trade secrets, as well as license, proprietary know-how and confidentiality

agreements. The Company may be unable, however, to prevent others from using its proprietary information, or continue to use such information itself, for numerous reasons, including the following:

- Merit's issued patents may not be sufficiently broad to prevent others from copying its proprietary technologies;
- Merit's issued patents may be challenged by third parties and deemed to be overbroad or unenforceable;
- Merit's products may infringe on the patents of others, requiring it to alter or discontinue its manufacture or sale of such products;
- Costs associated with seeking enforcement of Merit's patents against infringement, or defending itself against allegations of infringement, may be significant;
- Merit's pending patent applications may not be granted for various reasons, including overbreadth or conflict with an existing patent; and
- Other persons may independently develop, or have developed, similar or superior technologies.

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

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

To the extent that the Company grows through acquisition, it will face the additional challenges of integrating its current operations, culture, informational management systems and other characteristics with that of the acquired entity. The Company may incur significant expenses in connection with negotiating and consummating one or more transactions, and it may inherit certain liabilities in connection with the acquisition as a result of its failure to conduct adequate due diligence or otherwise. In addition, the Company may not realize competitive advantages, synergies or other benefits anticipated in connection with such acquisition(s). If the Company does not adequately identify targets for, or manage issues related to its future acquisitions, such acquisitions may have a negative adverse effect on the Company's business and financial results.

A significant adverse change in, or failure to comply with, governing regulations could adversely affect the Company's business.

Substantially all of the Company's products are "devices," as defined in the Federal Food, Drug and Cosmetic Act, and the manufacture, distribution, record keeping, labeling and advertisement of Merit's products are subject to regulation by the FDA in the United States and its equivalent regulatory agencies in various foreign countries in which Merit's products are manufactured, distributed, labeled, offered and sold. Further, the Company is subject to continual review and periodic inspections at its current facilities with respect to the FDA's Good Manufacturing Practices and similar requirements of foreign countries. In addition, the Company is subject to certain export control restrictions governed by the U.S. Department of the Treasury and may be governed by other regulatory agencies in various foreign countries in which products are exported. Merit's business and financial condition could be adversely affected if it is found to be out of compliance with governing regulations. If such regulations are amended to become more restrictive and costly to comply with, the costs of compliance could adversely affect the Company's business and financial condition.

A significant portion of the Company's revenues are derived from a few products and procedures.

A significant portion of the Company's revenues are attributable to sales of its inflation devices. During the year ended December 31, 2004, sales of the Company's inflation devices (including inflation devices sold in custom kits and through OEM channels) accounted for approximately 33% of the Company's total revenues. Any material decline in market demand for the Company's inflation devices could have an adverse effect on the Company's business and financial condition.

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

The Company is subject to work stoppage, transportation and related risks.

Merit manufactures its products at various locations in the United States and in Ireland and sells its products worldwide. The Company depends on third-party transportation companies to deliver supplies necessary to manufacture Merit products from vendors to the Company's various facilities and to move Merit products to customers, operating divisions and other subsidiaries located within and outside the United States. Merit's manufacturing operations, and the operations of the transportation companies on which the Company depends, may be adversely affected by natural disasters or significant human events, such as a war, terrorist attack, riot, strike, slowdown or similar event. Any disruption in the Company's manufacturing or transportation could materially adversely affect the Company's ability to meet customer demands or its operations.

Limits on reimbursement imposed by governmental and other programs may adversely affect the Company's business.

The cost of a significant portion of medical care is funded by governmental, social security or other insurance programs. Limits on reimbursement imposed by such programs may adversely affect the ability of hospitals and others to purchase Merit products. In addition, limitations on reimbursement for procedures which utilize Merit products could adversely affect sales.

Fluctuations in Euro exchange rates may negatively impact the Company's financial results.

Fluctuations in the rate of exchange between the Euro and the U.S. Dollar could have a negative impact on the Company's margins and financial results. For example, during 2004, the exchange rate between the Euro and the U.S. Dollar resulted in an increase of the Company's gross revenues of $1.8 million and 0.3% in gross profit.

For the year ended December 31, 2004, approximately $15.5 million, or 10.2%, of Merit's sales were denominated in Euros. If the rate of exchange between the Euro and the U.S. Dollar declines, the Company may not be able to increase the prices it charges its European customers for products whose prices are denominated in Euros. Furthermore, the Company may be unable or elect not to enter into hedging transactions which could mitigate the effect of declining exchange rates. As a result, as the rate of exchange between Euros and the U.S. Dollars declines, the Company's financial results may be negatively impacted.

The market price of the Company's Common Stock has been, and may continue to be, volatile.

The market price of Merit's common stock (the "Common Stock") has been, and may continue to be, highly volatile for various reasons, including the following:

- Merit's announcement of new products or technical innovations, or similar announcements by its competitors;
- Development of new procedures that use, or do not use, Merit's technology;
- Quarter-to-quarter variances in the Company's financial results;

- Claims involving potential infringement of patents and other intellectual property rights;
- Analysts' and other projections or recommendations regarding the Common Stock or medical technology stocks generally;
- Any restatement of the Company's financial statements or any investigation into the Company by the SEC or another regulatory authority; and
- A general decline, or rise, of stock prices in the capital markets generally.

The Company is dependent upon key personnel.

The Company's continued success is dependent on key management personnel, including Fred P. Lampropoulos, the Company's Chairman of the Board, President and Chief Executive Officer. Mr. Lampropoulos is not subject to any agreement prohibiting his departure, and the Company does not maintain key man life insurance on his life. The loss of Mr. Lampropoulos, or of certain other key management personnel, could materially adversely affect the Company's business and operations. The Company's success also depends, among other factors, on the successful recruitment and retention of key operations, manufacturing, sales and other personnel.

Item 2. Properties.

The Company owns approximately 31 acres of real property situated in the City of South Jordan, Utah, surrounding an additional 10 acres of leased real property on which is located the Company's 175,000 square foot principal office and manufacturing facility. The Company sold the 10-acre site to an unrelated developer in order to facilitate construction of such facility and entered into a 25-year lease agreement (beginning in 1995) to finance the new facility. Monthly lease payments are approximately $138,000. The Company also holds an option to purchase the facility, exercisable at market value after 25 years. During 2004, the Company acquired an additional 4 acres of property south of and adjacent to its current property. Subsequent to year end the Company acquired an additional 5 acres of property just west of its current facility. The acquisition of these additional properties will enable the Company to expand its operations in the future as property surrounding the Company is limited due to increased development over the past few years. At the end of 2004, the Company completed a 47,000 square foot facility in South Jordan, Utah. This facility will be used to relocate its production of sensors from Santa Clara, California, to relocate and expand Merit's Research and Development facilities and provide for additional pilot production clean rooms. The Company plans to complete a 140,000 square foot facility located in South Jordan, Utah sometime in the third quarter of 2005. This facility will be used to expand injection and insert molding production, house an automated finished goods warehouse, and relocate Merit's management information system employees. The new facilities in South Jordan, Utah will increase Merit's clean room production capacity and administrative office space to meet current and anticipated demand the Company will have for the next several years.

The Company owns a building of approximately 65,000 square feet with approximately three acres of land, in Galway, County Galway, Republic of Ireland, which serves as its principal office and manufacturing facility for European operations. The facility houses a research and development team, which developed Merit's diagnostic guide wire, and is developing other new products. The Company also manufactures other products at the Galway facility, including custom kits, BASIX® inflation devices, and hemostasis valve products. During 2004, the Company completed a 40,000-square-foot expansion of its Galway facility. This expansion is designed to provide additional production capacity and office space to meet the Company's current and anticipated needs. The Company's Galway property has been improved and equipped on terms favorable to the Company in connection with economic development incentives and grants provided by the Irish Government.

The Company leases a manufacturing facility of approximately 50,000 square feet comprised of seven units, located in Murray, Utah. The Murray facility is used for production of several of the Company's products and may be relocating to the Company's South Jordan headquarters. The leases related to three of the units at the Murray facility expired in 2004, and leases related to four of these units will expire in 2007. The aggregate monthly lease payments on these Murray facilities are approximately $16,000 and will expire in 2007.

The Company also leases 8,500 square feet of manufacturing and office space located in Santa Clara, California for the production of sensors. This lease runs through August 2005 at a monthly cost of approximately

$14,000. The Company does not plan to renew its Santa Clara, California lease as it currently intends to relocate its sensor operations to a new facility being built in South Jordan, Utah. It is anticipated that this move will happen sometime during 2006 as the Company will be upgrading its wafer fabrication production to improve capacity and quality and reduce costs at its South Jordan facility prior to closing its Santa Clara, California operation .

The Company owns approximately 19 acres of land and a 75,000-square-foot building in Angleton, Texas.

In November 2004, the Company acquired substantially all of the assets of MedSource. In connection with this acquisition the Company assumed a lease on a facility of approximately 44,000 square feet. The facility is used for production of custom procedure trays used in the medical industry. The monthly lease amount on this facility is $15,000 and will expire in March of 2005. The Company does not plan to renew this lease as it plans to relocate to a new facility which can combine its general and administrative functions and production into one location and increase its production capacity and warehouse space for anticipated demand.

The Company believes that its existing and proposed facilities will generally be adequate for its present and future anticipated level of operations.

Item 3. Legal Proceedings.

In the course of conducting its business operations, the Company is, from time to time, involved in litigation and other disputes. Management does not currently anticipate that any pending litigation or dispute will have a materially adverse effect on the Company's operations.

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

No matters were submitted to a vote of security holders during the fourth quarter of the year ended December 31, 2004.

PART II

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

MARKET PRICE FOR THE COMMON STOCK

The Common Stock is traded on the NASDAQ National Market System under the symbol "MMSI." The following table sets forth high and low sale prices for the Common Stock for the periods indicated.

Quarter Ended	High*	Low*
March 31, 2003	$ 11.86	$ 9.14
June 30, 2003	$ 12.30	$ 10.08
September 30, 2003	$ 18.00	$ 10.92
December 31, 2003	$ 24.00	$ 16.17
March 31, 2004	$ 25.40	$ 18.05
June 30, 2004	$ 22.39	$ 13.25
September 30, 2004	$ 17.69	$ 14.09
December 31, 2004	$ 15.64	$ 9.61

*Effective as August 15, 2003, and December 3, 2003, the Company effected a 4-for-3 forward stock split of the Common Stock by means of a stock split of one additional share of Common Stock for each three shares of Common Stock outstanding. Data related to periods prior to the effective dates of the three stock splits have been adjusted to reflect the terms of such stock splits.

OUTSTANDING SHARES AND NUMBER OF SHAREHOLDERS

As of March 10, 2005, the number of shares of Common Stock outstanding was 26,500,865, held by approximately 203 shareholders of record, not including shareholders whose shares are held in securities position listings.

DIVIDENDS

The Company has never declared or paid cash dividends on the Common Stock. The Company presently intends to retain any future earnings for use in its business and, therefore, does not anticipate paying any dividends on the Common Stock in the foreseeable future. In addition, the Company's revolving line of credit contains covenants prohibiting the declaration and distribution of a cash dividend at any time prior to the termination of such line of credit.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table contains information regarding the Company's equity compensation plans as of December 31, 2004 (in thousands):

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a) (c)
Equity compensation Plans approved by security holders	4,371(1),(3)	$ 9.28	1,104(2),(3)
Equity compensation Plans not approved by security holders	100(4)	$ 10.13	100
Total	4,471		1,204

(1) Consists of 4,371,471 shares subject to the options granted under the Company's Stock Incentive Plan.
(2) Consists of 516,503 shares available to be issued under the Company's Employee Stock Purchase Plans and 587,407 shares available to be issued under the Company's Stock Incentive Plan.
(3) See Note 10 to the Company's consolidated financial statements set forth in Item 8 of this report for additional information regarding these plans.
(4) Consist of warrants issued in the acquisition of MedSource Packaging Concepts LLC – see note Note 3 to the Company's consolidated financial statements set forth in Item 8 of this report for additional information regarding this acquisition.

Item 6. Selected Financial Data (In thousands except share data).

	Year Ended December 31,				
	2004	2003	2002	2001	2000
OPERATING DATA:					
Net Sales	$ 151,398	$ 135,953	$ 116,227	$ 104,036	$ 91,448
Cost of Sales	83,908	75,230	67,712	65,938	60,824
Gross Profit	67,490	60,723	48,515	38,098	30,624

Operating Expenses:					
Selling, general and administrative	35,071	30,468	27,732	24,040	23,631
Research and development	5,079	4,626	4,008	4,118	3,864
Total operating expenses	40,150	35,094	31,740	28,158	27,495
Other Operating Income					
Gain on sale of land		508		786	
Income From Operations	27,340	26,137	16,775	10,726	3,129
Other Income(Expense):					
Litigation Settlement	100	475			
Interest income	556	386	97	40	39
Interest expense	(6)	(10)	(94)	(978)	(2,320)
Miscellaneous income (expense)	16	34	(16)		(74)
Other income (expense)—net	666	885	(13)	(938)	(2,355)
Income before income taxes	28,006	27,022	16,762	9,788	774
Income Tax Expense (Benefit)	10,074	9,727	5,452	3,052	(53)
Net Income	$ 17,932	$ 17,295	$ 11,310	$ 6,736	$ 827
Earnings Per Common Share:					
Diluted	$ 0.65	$ 0.64	$ 0.43	$ 0.28	$ 0.04
Average Common Shares:					
Diluted	27,691	27,034	26,238	23,876	21,836
BALANCE SHEET DATA:					
Working Capital	$ 54,944	$ 56,931	$ 34,582	$ 26,911	$ 32,447
Total Assets	139,877	107,301	78,305	66,659	71,447
Long-term debt	5	0	17	5,727	24,102
Stockholders' equity	$ 111,052	$ 88,244	$ 63,399	$ 47,658	$ 34,773

During the year ended December 31, 2004 and 2000, the Company accrued severance costs totaling approximately $663,000 and $331,000, respectively, related to the termination of certain employees.

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

OVERVIEW

During 2004, Merit experienced its most successful year ever in terms of revenue and income. Sales for the year ended December 31, 2004 were up 11% at $151.4 million, compared to $135.9 million for 2003. Growth in 2004 revenue was primarily driven by increased catheter and inflation device sales. For the year ended December 31, 2004, the Company reported net income of $17.9 million, or $0.65 per share, up 4% compared to $17.3 million, or $0.64 per share for 2003. Net income for 2004 was effected by a one time severance expense, costs relating to Sarbanes-Oxley compliance, and a non-recurring gain from a litigation settlement for a total of approximately $792,000 (net of tax), or $0.03 per share. Net income for 2003 included a non-recurring gain from the settlement of a legal dispute and sale of land for a total of approximately $627,000 (net of tax), or $0.02 per share.

Gross margins as a percentage of sales were down slightly to 44.6% for the year ended December 31, 2004, compared to 44.7% for year ended December 31, 2003. Inventory turns remained at 3.8 times per year for 2004 compared to the prior year.

The Company's financial condition strengthened during 2004 as the Company's cash position rose 9% to $33.0 million, compared to $30.2 million in 2003, including the $15.8 million spent on construction of buildings. In 2004, the Company experienced its largest cash flow from operations of $30.0 million, an increase of 19%, over the comparable period in 2003. Significant investments were made during 2004 for 180,000 square feet of new manufacturing space at the Company's South Jordan, Utah facility, and approximately 40,000 square feet at its Galway, Ireland facility. The Company intends to use the additional facilities to expand Merit's manufacturing capacity to meet current and future demand of the Company's products and consolidate the Merit Sensor Systems, Inc., wafer fabrication facility (8,500 square feet) from Santa Clara, California, to South Jordan, Utah. The Galway, Ireland facility was completed in November 2004 and one of the new facilities in South Jordan (approximately 47,000 square feet) was completed in December 2004.

During 2005, the Company expects gross margins to decline slightly as it absorbs investments made to increase capacity and improve quality, such as moving into new facilities discussed above. Another factor that management anticipates will affect the Company's gross margin percentage will be the potential increase in sales of the lower-margin pack business of MedSource and bringing on new products that management anticipates will have a negative effect on margins. Management believes, however, that if the Company is successful in increasing production volumes according to current plans, the increased production will offset some of the effect of the lower margins. Merit also intends to invest in additional sales representatives to increase sales, and in selling, general and administrative personnel to support current operations. The Company believes the additional investments in facilities and personnel are needed to position the Company for future growth in sales and earnings. During the second half of 2005, the Company expects to release new products that it believes will significantly affect future sales growth. Management believes market acceptance of the Company's new and existing products, if achieved, will further enhance future top and bottom-line growth.

RESULTS OF OPERATIONS

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

	2004	2003	2002
Sales	100.0%	100.0%	100.0%
Gross profit	44.6	44.7	41.7
Selling, general and administrative expenses	23.2	22.4	23.9
Research and development expenses	3.4	3.4	3.4
Income from operations	18.1	19.2	14.4
Income before income tax expense	18.5	19.9	14.4
Net income	11.8	12.7	9.7

Sales increased by $15.4 million, or 11.4%, in 2004, compared to an increase of 19.7 million, or 17%, in 2003, and an increase of $12.2 million, or 11.7%, in 2002. The increase in sales for 2004 resulted primarily from a 16% increase in catheter sales, an 11% increase in inflation devices sales, a 10% increase in custom kit revenues, and a 10%

increase in stand-alone products sales. The increase in sales for 2003 resulted primarily from a 19% increase in stand-alone product revenues, an 18% increase in custom kit revenues, a 17% increase in inflation device revenues, and a 9% increase in catheter product revenues. The increase in sales for 2002 resulted primarily from a 13% increase in custom kit revenues, a 13% increase in stand-alone product revenues, an 11% increase in inflation device revenues, and a 6% increase in catheter product revenues. The Company's revenues increased notwithstanding the fact that the markets for many of the Company's products are experiencing slight pricing declines; therefore substantially all of the increase in the Company's revenues was attributable to increased unit sales, except for an increase in the exchange rate between the Euro and the U.S. Dollar which increased sales by 1.2% in 2004 compared to 2003, 1.8% in 2003 compared to 2002, and .4% in 2002 compared to 2001. Unit growth for 2004, 2003, and 2002 resulted primarily from a procedural growth rate of approximately 6-8%. In addition, unit growth in 2004, 2003, and 2002 was attributable, in part, to the introduction of new products which accounted for approximately 4%, 5%, and 3%, respectively, for total sales for such periods, with the remainder of unit growth coming from market share gains. International sales in 2004 were approximately $37.5 million, or 25% of total sales; approximately $34.3 million, or 25% of total sales, in 2003; and approximately $27.1 million, or 23% of total sales, in 2002. These increases were primarily a result of greater acceptance of the Company's products in international markets, ongoing growth in the Company's European direct sales, and increased sales related to improvement in the exchange rate between the Euro and the U.S. Dollar, as discussed above. Direct sales in France, Germany, the U.K., Belgium, the Netherlands and Ireland were $18.9 million, $15.6 million, and $12.3 million in 2004, 2003, and 2002, respectively.

Gross profit as a percentage of sales was 44.6%, 44.7%, and 41.7% in 2004, 2003, and 2002, respectively. The slight decrease in gross margin percentage in 2004, compared to 2003, was the result of a slight increase in the standard costs per unit as the result of increased manufacturing costs. The increase in the gross margin percentage for 2003 over 2002, and improvement in 2002 over 2001, was primarily affected by an increase in efficiency and productivity gains achieved primarily by the Company's operations groups. These productivity gains have been achieved primarily by enhanced employee productivity, which management believes was encouraged by Merit's bonus program, streamlined production layouts and investments in manufacturing equipment which have improved efficiencies. With these improved efficiencies, Merit's cost per unit for many of its products has decreased as unit sales have grown, notwithstanding slight increases in fixed overhead costs. Gross profit was also favorable for 2003 over 2002, and 2002 over 2001, primarily due to an increase in the exchange rate of the Euro against the U.S. Dollar, resulting in an increase in gross profit of 0.3 and 0.4, respectively. During 2003, the Company reduced the material costs from some of its principal vendors. The Company is operating in a gradually declining price market. During 2005, the Company expects gross margins to decline as a result of higher overhead expenses attributable to moving into the new buildings discussed above, integrating the lower-margin pack sales of MedSource, and bringing on several new products which are anticipated to have a negative effect on margins until. Management believes, however, that if the Company is successful in increasing production volumes according to current plans, the increased production will offset some of the effect of the lower margins.

Selling, general and administrative expenses increased $4.6 million, or 15.1% in 2004 over 2003; $2.7 million, or 9.9% in 2003 over 2002; and $3.7 million, or 15.4% in 2002 over 2001. The increase in selling, general and administrative costs for 2004, compared to 2003, was primarily the result of approximately $674,000 in costs associated with Merit's efforts to comply with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 and severance costs of approximately $663,000 related to the termination of certain employees. The additional expenditures for 2003 over 2002 were related to increases in commissions paid commensurate with sales growth, costs of expanding the Company's direct sales force in the United States and Europe, and an increased exchange rate of the Euro against the U.S. Dollar compared to the same period in 2002, resulting in an increase in selling expenses for the Company's direct sales force in Europe. The increased expenditures in 2002 over 2001 were related to increased costs of expanding the direct sales force, marketing support, and management both in the United States and Europe.

Research and development (R&D) expenses for 2004 increased 9.8% to $5.1 million, compared to $4.6 million in 2003; grew 15.4% to $4.6 million in 2003, compared to $4.0 million in 2002; and decreased 2.7% to $4.0 million compared to $4.1 million in 2001. The increase in R&D in 2004 over 2003 and 2002 over 2001 was related primarily to R&D head count additions and indirect costs to support catheter development. The decline in R&D during 2002 was primarily a result of the completion of R&D activities in Ireland relating to the Company's guide wire product line and the transition of much of the Company's R&D resources to manufacture the new diagnostic guide wire product line. Research and development costs as a percentage of sales were 3.4% for 2004, 2003, and 2002. Management believes that the development of 10-12 projects at any given time is an appropriate level of R&D for the Company, and is likely to provide 6-8 new products a year through R&D, regulatory, manufacturing, marketing, and sales introduction.

The Company's effective tax rates for 2004, 2003, and 2002 were 36.0%, 36.0%, and 32.5%, respectively. The increase in the effective tax rate for 2003 over 2002 was mostly due to lower taxable income in 2003 for the Company's Irish operations, which are taxed at a lower rate than the U.S. operations. The change in taxable income for Ireland from 2003 to 2002 was the result of increased costs associated with the development of a new product, which is

scheduled to be released during 2005. The effective tax rate for 2002 was 32.5%, up slightly from 31.2% in 2001, mostly because the foreign sales corporation and R&D tax benefits were diluted by a 71% increase in income from operations.

Other operating income for 2003 was the result of a gain of $507,928 on sale of land adjacent to the Company's South Jordan, Utah facility.

Other income (expense) for 2004, 2003, and 2002 was $665,639, $886,401, and ($13,209), respectively. The decrease in other income for 2004 over 2003 was affected by a net decrease in a litigation settlement of $375,000, offset by an increase in 2004 of interest income of $170,075. The increase in other income for 2003 over 2002 related mostly to the settlement of a legal dispute of $475,000, an increase in interest income of $288,654, and a decrease in interest expense of $84,145, compared to the same period in 2002. Decreases in other expense in 2002 over 2001 were primarily the result of a decrease in interest expense in 2002 of $833,903, and an increase in interest income of $56,412, offset by a gain on the sale of land in 2001 of $787,204.

Net income for 2004 was $17.9 million, compared to $17.3 million for 2003. Net income for 2003 was up 52.9% to $17.3 million, compared to $11.3 million for 2002. Net income for 2002 increased 67.9% to $11.3 million, compared to $6.7 million. Net income for 2003 and 2002 was favorably affected by higher sales, gross profits and an increase in other income.

Under the recently issued Financial Accounting Standard Board Statement (FASB) No. 123R, *Share-based Payment*, the Company will be required to apply the expense recognition provisions of this pronouncement to equity-based incentives such as stock options. In anticipation of this pronouncement, during 2004 the Company made two grants to management and employees for a total of 807,296 shares of common stock which vested immediately upon grant, rather than over 5 years as has been the Company's historical practice. Additionally, subsequent to December 31, 2004, the Company accelerated the vesting on 427,448 options with an exercise price of $21.67, which was in excess of the current market price. The immediate vesting of options and the acceleration of options which have exercise prices that are below the current market value of the Company's common stock are anticipated to reduce Merit's compensation expense by approximately $3.3 million and $2.8 million, respectively, in future periods under the provisions of FAS No. 123R, which management believes is in the best interest of the Company and its shareholders.

Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*. Under SFAS No. 142, the Company no longer amortizes goodwill from business acquisitions, but reviews annually the impairment of goodwill, or more frequently if impairment indicators arise. The Company completed its initial testing of goodwill as of January 1, 2002 and determined that there was no impairment. The Company has elected to perform its annual testing of goodwill impairment as of July 1 of the applicable fiscal year. As of July 1, 2004, the Company updated its testing of goodwill for impairment and determined that there was no impairment. The unamortized amount of goodwill at December 31, 2004 was approximately $5.6 million.

With the adoption of SFAS No. 142, the Company reassessed the useful lives and residual values of all acquired intangible assets to make any necessary amortization period adjustments. Based on that assessment, no adjustments were made to the amortization period or residual values of other intangible assets. See discussion of the effect of this accounting standard and recently issued accounting standards in Note 1 of the Company's consolidated financial statements set forth in Item 8 of this report.

LIQUIDITY AND CAPITAL RESOURCES

Capital Commitments

The following table summarizes the Company's capital commitments and contractual obligations as of December 31, 2004, including long-term debt, operating lease payments, and office lease payments, as well as the future periods in which such payments are currently anticipated to become due:

	Payment due by period (in thousands)				
Contractual Obligations	**Total**	**Less than 1 Year**	**1-3 Years**	**4-5 Years**	**After 5 Years**
Long-term debt	12	7	2	3	
Operating leases	27,331	2,715	4,490	3,375	16,751
Royalty obligations	1,950	525	975	450	
Total contractual cash obligations	29,293	3,247	5,467	3,828	16,751

Additional information regarding the Company's capital commitments and contractual obligations, including royalty payments, is contained in Notes 7, 8, and 12 of the Notes to the Company's consolidated financial statements, set forth in Item 8.

The Company's working capital for 2004, 2003, and 2002 was $54.9 million, $56.9 million, and $34.6 million, respectively. The decrease in working capital from 2004 over 2003 was the result of cash being used to fund the construction of the Company's new facilities in South Jordan, Utah, and Galway, Ireland. The increases in working capital for 2003 over 2002 and for 2002 over 2001, were primarily due to an increase in the Company's cash balance of $20.5 million in 2003 of $9.3 million in 2002. As of December 31, 2004, the Company had a current ratio of 3.6 to 1. The Company had $0 outstanding under its line of credit at December 31, 2004. Merit assumed some capital leases with the purchase of MedSource, with an outstanding balance of $12,457 at December 31, 2004. The Company generated cash from operations for 2004, 2003, and 2002 in the amount of $30.0 million, $25.2 million, and $21.5 million, respectively. The Company maintains a long-term revolving credit facility (the "Facility") with a bank, which currently enables the Company to borrow funds at variable interest rates. The credit facility was voluntarily reduced to $500,000 in August 2002. The Facility expires on June 30, 2006. Based on discussions with representatives of the bank, management believes the Company could restore the credit facility to its former level of $35 million, subject to a favorable credit review.

Historically, the Company has incurred significant expenses in connection with product development and introduction of new products. Substantial capital has also been required to finance the increase in our receivables and inventories associated with our increased sales. During 2005, approximately $14.1 million remains to be paid to complete the remaining facility in South Jordan, Utah. Management anticipates that an additional $2.5 million, in excess of the Company's 2004 annual capital expenditures, will be spent on other production equipment for these new facilities. Our principal source of funding for these and other expenses has been cash generated from operations, sale of equity, cash from loans on equipment, and bank lines of credit. Management believes that its present sources of liquidity and capital are adequate for the current operations and for the foreseeable future.

Critical Accounting Policies and Estimates

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

Inventory Obsolescence Reserve: The Company's management reviews on a regular basis inventory quantities on hand for unmarketable and/or slow moving products that may expire prior to being sold. This review of inventory quantities for unmarketable and/or slow moving products is based on estimates of forecasted product demand prior to expiration lives. If market conditions become less favorable than those projected by management, additional inventory write-downs may be required. We believe that the amount included in our obsolescence reserve has been an historically

accurate estimate of the unmarketable and/or slow moving products that may expire prior to being sold. The Company's obsolescence reserve was approximately $2.3 million as of December 31, 2004.

Allowance for Doubtful Accounts: A majority of the Company's receivables are with hospitals, which over the Company's history have demonstrated favorable collections. Therefore, the Company has experienced minimal bad debts from hospital customers and similar write-offs associated with some of the Company's international distributors, typically as a result of terminating a distributor within a foreign country. The most significant write-offs over the Company's history have come from U.S. packers who bundle Merit's products in surgical trays.

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. The allowance is based upon historical experience and a review of individual customer balances. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. The Company's bad debt reserve was $728,865 at December 31, 2004, which is in line with historical collection experience.

Stock-Based Compensation: The Company accounts for its stock compensation arrangements under the provisions of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, (APB 25) and intends to continue to do so. Accordingly, no compensation cost has been recognized for its stock compensation arrangements. If the compensation cost for the Company's compensation plans had been determined consistent with Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation*, the Company's net income and net income per common and common share equivalent would have changed to the pro forma amounts indicated below (in thousands except per share data) :

	2004	2003	2002
Net income—as reported	$ 17,932	$ 17,296	$ 11,310
Compensation cost under fair value-based accounting method—net of tax	4,373	2,958	1,436
Net income—pro forma	$ 13,559	$ 14,338	$ 9,874
Net income per common share:			
Basic:			
As reported	$ 0.68	$ 0.66	$ 0.47
Pro forma	0.52	0.56	0.41
Diluted:			
As reported	0.65	0.62	0.43
Pro forma	0.49	0.53	0.38

In applying the Black-Scholes methodology to the option grants, the Company used the following assumptions:

	Year Ended December 31,		
	2004	2003	2002
Risk-free interest rate	2.96% - 3.68%	2.32% - 3.23%	5.08% - 5.16%
Expected option life	2.5 years	5 years	5 years
Expected price volatility	47.54%	63.81%	63.24%

For options with a vesting period, compensation expense is recognized on a ratable basis over the service period which corresponds to the vesting period. Compensation expense is recognized immediately for options that are fully vested on the date of grant.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk

The Company's principal market risk relates to changes in the value of the Euro relative to the value of the U.S. Dollar. The Company's consolidated financial statements are denominated in, and the Company's principal currency is, the U.S. Dollar. A portion of the Company's revenues in 2004 ($15.5 million, representing approximately 10.2% of aggregate revenues) came from sales that were denominated in Euros. Certain of the Company's expenses are also denominated in Euros, partially offsetting any risk associated with fluctuations of the Euro/Dollar exchange rate. Because of the Company's Euro-denominated revenues and expenses, in a year in which the Company's Euro-denominated revenues exceed its Euro-based expenses, the value of such Euro-denominated net income increases if the value of the Euro increases relative to the value of the U.S. Dollar, and decreases if the value of

the Euro decreases relative to the value of the U. S. Dollar. During 2004, the exchange rate between the Euro and the U.S. dollar resulted in an increase of the Company's gross revenues of $1.8 million and 0.3% in gross profit.

At December 31, 2004, the Company had a net exposure (representing the difference between Euro denominated receivables and Euro denominated payables) of approximately $230,000. In order to partially offset such risk, at December 31, 2004, the Company entered into a 30-day forward Euro hedge contract. The Company enters into similar hedging transactions at various times during the year to partially offset exchange rate risks it bears throughout the year. The Company does not purchase or hold derivative financial instruments for speculative or trading purposes. During the year ended December 31, 2004, the Company experienced a net loss of approximately $8,000 on hedging transactions it executed during 2004 in an effort to limit its exposure to fluctuations in the Euro/Dollar exchange rate.

Another market risk relates to variable rate debt. As of December 31, 2004, the Company had no variable rate debt. As long as the Company does not have variable rate debt, the Company's interest expense would not be affected by changes in interest rates.

Item 8. Financial Statements and Supplementary Data.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Merit Medical Systems Inc., and subsidiaries (the "Company") as of December 31, 2004 and 2003, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2004. Our audits also included the financial statement schedule listed in the Index at Item 15**.** These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2004 and 2003, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2004, based on the criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 11, 2005 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

Salt Lake City, Utah
March 11, 2005

MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2004 AND 2003
(In Thousands)

	2004	2003
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 33,037	$ 30,204
Trade receivables—net of allowance for uncollectible accounts: 2004—$729; 2003—$749	19,724	17,729
Employee and other receivables	157	267
Inventories	23,096	21,269
Prepaid expenses and other assets	797	823
Deferred income tax assets	56	221
Income tax refund receivables		375
Total current assets	76,867	70,888

PROPERTY AND EQUIPMENT:		
Land and land improvements	4,664	2,740
Building	18,272	5,268
Manufacturing equipment	32,475	29,569
Furniture and fixtures	12,786	11,953
Leasehold improvements	4,085	4,616
Construction-in-progress	14,474	4,887
Total	86,756	59,033
Less accumulated depreciation and amortization	(34,264)	(29,836)
Property and equipment—net	52,492	29,197
OTHER ASSETS:		
Intangibles net of accumulated amortization: 2004—$1,332; 2003—$1,312	1,990	1,846
Goodwill	5,570	4,765
Other assets	1,822	573
Note receivable	1,000	
Deposits	136	32
Total other assets	10,518	7,216
TOTAL ASSETS	$ 139,877	$ 107,301

See notes to consolidated financial statements. (Continued)

MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2004 AND 2003
(In Thousands)

	2004	2003
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	$ 7	$ 17
Trade payables	10,728	5,700
Accrued expenses	8,467	7,988
Advances from employees	221	159
Deferred income tax liabilities	227	
Income taxes payable	2,273	87
Total current liabilities	21,923	13,951
DEFERRED INCOME TAX LIABILITIES	2,580	3,020
LONG-TERM DEBT	5	
DEFERRED COMPENSATION PAYABLE	1,702	579
DEFERRED CREDITS	2,615	1,507
Total liabilities	28,825	19,057
COMMITMENTS AND CONTINGENCIES (Notes 2, 7, 8, 12 and 14)		
STOCKHOLDERS' EQUITY:		
Preferred stock—5,000 shares authorized as of December 31, 2004 and 2003, no shares issued		
Common stock—no par value; 50,000 shares authorized; 26,486 and 26,003 shares issued at December 31, 2004 and 2003, respectively	42,559	37,702
Retained earnings	68,891	50,959
Accumulated other comprehensive loss	(398)	(417)
Total stockholders' equity	111,052	88,244
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 139,877	$ 107,301

See notes to consolidated financial statements. (Concluded)

MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002
(In Thousands Except Per Share Data)

	2004	2003	2002
NET SALES	$ 151,398	$ 135,953	$ 116,227
COST OF SALES	83,908	75,230	67,712
GROSS PROFIT	67,490	60,723	48,515
OPERATING EXPENSES:			
Selling, general and administrative	35,071	30,468	27,732
Research and development	5,079	4,626	4,008
Total operating expenses	40,150	35,094	31,740
OTHER OPERATING INCOME—			
Gain on sale of land		508	
INCOME FROM OPERATIONS	27,340	26,137	16,775
OTHER INCOME (EXPENSE):			
Litigation settlement	100	475	
Interest income	556	386	97
Interest expense	(6)	(10)	(94)
Other income (expense)	16	34	(16)
Other income (expense)—net	666	885	(13)
INCOME BEFORE INCOME TAXES	28,006	27,022	16,762
INCOME TAX EXPENSE	10,074	9,727	5,452
NET INCOME	$ 17,932	$ 17,295	$ 11,310
EARNINGS PER COMMON SHARE:			
Basic	$ 0.68	$ 0.68	$ 0.47
Diluted	$ 0.65	$ 0.64	$ 0.43
AVERAGE COMMON SHARES:			
Basic	26,300,773	25,401,445	24,226,100
Diluted	27,690,668	27,033,964	26,238,450

See notes to consolidated financial statements.

MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2004, 2003, AND 2002
(In Thousands)

	Total	Common Stock Shares	Common Stock Amount	Accumulated Other Comprehensive Loss	Retained Earnings
BALANCE—January 1, 2002	$ 47,659	23,781	$ 25,959	$ (653)	$ 22,353
Comprehensive income:					
Net income	11,310				11,310
Foreign currency translation adjustment (net of deferred tax of $75)	122			122	
Total comprehensive income	11,432				
Tax benefit attributable to appreciation of common stock	2,684		2,684		

options exercised					
Sale of treasury stock	142	13	142		
Issuance of common stock under Employee Stock Purchase Plans	350	42	350		
Options and warrants exercised	1,928	876	1,928		
Shares surrendered in exchange for the payment of payroll tax liabilities	(469)	(36)	(469)		
Shares surrendered in exchange for the exercise of stock options	(327)	(29)	(327)		
BALANCE—January 1, 2003	63,399	24,647	30,267	(531)	33,663
Comprehensive income:					
Net income	17,295				17,295
Foreign currency translation adjustment (net of deferred tax of $69)	114			114	
Total comprehensive income	17,409				
Tax benefit attributable to appreciation of common stock options exercised	4,741		4,741		
Issuance of common stock under Employee Stock Purchase Plans	305	33	305		
Options and warrants exercised	3,719	1,408	3,719		
Shares surrendered in exchange for the payment of payroll tax liabilities	(781)	(49)	(781)		
Shares surrendered in exchange for the exercise of stock options	(548)	(36)	(548)		
BALANCE—January 1, 2004	88,244	26,003	37,703	(417)	50,958
Comprehensive income:					
Net income	17,932				17,932
Foreign currency translation adjustment (net of deferred tax of $11)	19			19	
Total comprehensive income	17,951				
Tax benefit attributable to appreciation of common stock options exercised	2,841		2,841		
Stock issued in conjunction with acquisition (net of registration expenses of $22)	301		301		
Issuance of common stock under Employee Stock Purchase Plans	584	40	584		
Options and warrants exercised	1,855	480	1,855		
Shares surrendered in exchange for the payment of payroll tax liabilities	(459)	(22)	(459)		
Shares surrendered in exchange for the exercise of stock options	(265)	(15)	(265)		
BALANCE—December 31, 2004	$ 111,052	26,486	$ 42,560	$ (398)	$ 68,890

See notes to consolidated financial statements.

MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2004, 2003, AND 2002
(In Thousands)

	2004	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 17,932	$ 17,295	$ 11,310
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	4,730	4,486	4,577
(Gains) losses on sales and abandonment of property and equipment	1	(517)	4
Write-off of certain patents and trademarks	214	26	391
Amortization of deferred credits	(238)	(258)	(195)
Deferred income taxes	(48)	430	1,294
Tax benefit attributable to appreciation of common stock options exercised	2,841	4,741	2,684
Changes in operating assets and liabilities net of effects from acquisition:			
Trade receivables	(1,792)	(2,481)	(500)
Employee and other receivables	111	537	(33)
Inventories	(1,634)	(2,570)	2,124
Prepaid expenses and other assets	95	(156)	(152)
Other receivables		331	(1,112)
Deposits	(105)	1	2

Trade payables	5,028	1,579	(538)
Accrued expenses	259	1,949	1,801
Advances from employees	62	(3)	33
Income taxes payable	2,560	(197)	(203)
Total adjustments	12,084	7,898	10,177
Net cash provided by operating activities	30,016	25,193	21,487
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures for:			
Property and equipment	(27,915)	(8,166)	(7,954)
Patents and trademarks	(539)	(103)	(98)
Proceeds from the sale of property and equipment	4	570	3
Increase in cash surrender value of life insurance contracts	1,123		
Note receivable	(1,000)		
Cash paid in acquisition	(813)		
Net cash used in investing activities	(29,140)	(7,699)	(8,049)

See notes to consolidated financial statements.

	2004	2003	2002
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net payments on revolving credit facility	$	$	$ (5,078)
Proceeds from:			
Issuance of common stock	1,693	2,695	1,586
Deferred credits	1,349	904	128
Principal payments on notes payable to financial institutions and capital leases	(18)	(400)	(793)
Increase in deferred compensation payable	(1,225)	(356)	(132)
Net cash provided by (used in) financing activities	1,799	2,843	(4,289)
EFFECT OF EXCHANGE RATES ON CASH	158	183	193
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,833	20,520	9,342
CASH AND CASH EQUIVALENTS:			
Beginning of year	30,204	9,684	342
End of year	$ 33,037	$ 30,204	$ 9,684
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION—Cash paid during the year for:			
Interest (including capitalized interest of approximately $-0-, $-0- and $17,000 during 2004, 2003 and 2002, respectively)	$ 6	$ 16	$ 109
Income taxes	$ 4,722	$ 4,354	$ 2,397

See notes to consolidated financial statements.

MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2004, 2003, AND 2002

SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:

- During 2001, the Company entered into capital lease obligations and notes payable for approximately $271,000 for manufacturing equipment.

- During 2004, 2003 and 2002, options to purchase 22,227, 49,173 and 36,487 matured shares, respectively, (i.e. shares owned for more than six months) of the Company's common stock were surrendered in exchange for the Company's recording of payroll tax liabilities in the amount of approximately $459,000, $781,000 and $469,000. The matured shares were valued based upon the closing price of the Company's common stock on the surrender date.

- During 2004, 2003 and 2002, 14,820, 35,934 and 29,335 mature shares of Company common stock with a value of approximately $265,000, $548,000 and $327,000, respectively, were surrendered in exchange for the exercise of stock options.

- During 2004, the Company acquired all of the assets of MedSource Packaging Concepts LLC, in a purchase transaction for $812,516. In conjunction with the acquisition, liabilities were assumed as follows:

Fair value of assets acquired (including goodwill of $805,381)	$	1,464,409
Cash paid		812,516
Fair value of 100,000 warrants issued		323,170
Liabilities assumed	$	328,723

See notes to consolidated financial statements.

MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2004, 2003, AND 2002

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization—Merit Medical Systems, Inc. ("Merit") and its wholly-owned subsidiaries, Merit Holdings, Inc. ("MHI"), and Merit Sensor Systems, Inc. collectively own 100% of Merit Medical Systems LP ("MMSLP"). Combined with its other wholly-owned subsidiary, Merit Medical International, Inc. ("MMI"), Merit, MHI and Merit Sensor Systems, Inc. collectively own 100% of Merit Services, Inc. ("MSI") (collectively, the "Company"). The Company develops, manufactures and markets disposable medical products primarily for use in the diagnosis and treatment of cardiovascular disease which is considered to be one segment line of business. The Company manufactures its products in plants located in the United States and in Ireland. The Company has export sales to dealers and has direct sales forces in the United States, and Western Europe (see Note 11).

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

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

Principles of Consolidation—The consolidated financial statements include those of Merit, MMI, MHI, MSI, MMSLP and Merit Sensor systems, Inc. Intercompany balances and transactions have been eliminated

Receivables—The allowance for uncollectible accounts receivable is based on the Company's historical bad debt experience and on management's evaluation of its ability to collect individual outstanding balances.

Revenue Recognition— The Company sells its single-use disposable medical products through a direct sales force in the U.S., France, Germany, UK, Holland, Ireland and Belgium, and through its OEM relationships, custom packers and independent distributors in other international markets. Revenues from these customers are recognized when all of the following have occurred: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) the price is fixed or determinable, and (iv) the ability to collect is reasonable assured. These criteria are generally satisfied at the time of shipment when risk of loss and title passes to the customer. The Company has certain written agreements with group purchasing organizations to sell its products to participating hospitals. These agreements have destination shipping terms which require the Company to defer the recognition of a sale until the product has arrived at the participating hospitals. The Company reserves for sales returns for defective products (i.e. warranty liability) as a reduction in revenue based on its historical experience. The Company also offers sales rebates and discounts to purchasing groups. These reserves are recorded as a reduction in revenue and are not material to the Company's consolidated statements of operation for the years ended December 31, 2004, 2003 and 2002.

Shipping and Handling—The Company bills its customers for shipping and handling charges, which are included in total revenues for the applicable period and the corresponding shipping and handling expense is reported in cost of goods sold.

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

Income Taxes—The Company utilizes an asset and liability approach for financial accounting and reporting for income taxes. Deferred income taxes are provided for temporary differences in the bases of assets and liabilities as reported for financial statement and income tax purposes.

Intangible Assets—Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 142, *Goodwill and Other Intangible Assets*. Under SFAS No. 142, the Company no longer amortizes goodwill from business acquisitions, but reviews annually the impairment of goodwill, or more frequently if impairment indicators arise. The Company completed its initial testing of goodwill as of January 1, 2002 and determined that there was no impairment. The Company has elected to perform its annual testing of goodwill impairment as of July 1. As of July 1, 2004, 2003 and 2002, the Company updated its testing of goodwill for impairment and determined that there was no impairment.

With the adoption of SFAS No. 142, the Company reassessed the useful lives and all acquired intangible assets to make any necessary amortization period adjustments. Based on that assessment, no adjustments were made to the amortization period or residual values of other intangible assets. Intangible assets are depreciated over a straight line basis over the following useful lives:

Patents	17 years
Trademarks	15 years
License agreements	10 to 15 years

Long-Lived Assets—In August 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS No. 144 supercedes SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of*, but retains the requirements relating to recognition and measurement of an impairment loss and resolves certain implementation issues resulting from SFAS No. 121. SFAS No. 144 was adopted by the Company on January 1, 2002 and did not have a material impact on the results of operations or financial condition of the Company.

The Company periodically reviews the carrying amount of its long-lived assets for impairment. An asset is considered impaired when estimated future cash flows are less than the carrying amount of the asset. In the event the carrying amount of such asset is considered not recoverable, the asset is adjusted to its fair value. Fair value is generally determined based on discounted future cash flow. There were no impairments of long-lived assets during the years ended December 31, 2004, 2003 and 2002.

Property and Equipment—Property and equipment is stated at the historical cost of construction or purchase. Construction costs include payroll-related costs, an allocation of general and administrative costs, and interest capitalized during construction. Maintenance and repairs of property and equipment are charged to operations as incurred. Leasehold improvements are amortized over the lesser of the base term of the lease or life of the leasehold improvements. Construction-in-process primarily consists of a 140,000 square foot facility currently being built the Company's headquarters in South Jordan, Utah and various production equipment. Assets in construction-in-process will commence depreciation once the asset has been placed in service. Depreciation and amortization are computed using the straight-line method over estimated useful lives as follows:

Building	25 years
Automobiles	4 years
Manufacturing equipment	5 to 12 years
Furniture and fixtures	3 to 10 years
Land improvements	10 to 20 years
Leasehold improvements	4 to 25 years

Deferred Credits—Deferred credits consist of grant money received from the Irish government and deferred gains on sales leaseback transactions. Grant money is received for a percentage of expenditures on eligible property and equipment, specific research and development projects, and costs of hiring and training employees. Amounts related to the acquisition of property and equipment are amortized as a reduction of depreciation expense over the lives of the corresponding property. Deferred gains on sales leaseback transactions are amortized as a reduction of rent expense over periods ranging from six to 10 years.

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

Stockholders' Equity— On March 27, 2002, the Company's Board of Directors approved a five-for-four split of the Company's common stock effective April 11, 2002 for stockholders of record as of April 8, 2002. On July 31, 2003, the Company's Board of Directors approved a four-for-three stock split of the Company's common stock effective August 15, 2003, for stockholders of record as of August 11, 2003. On November 19, 2003, the Company's Board of Directors approved a four-for-three stock split of the Company's common stock effective December 3, 2003, for stockholders of record as of November 28, 2003. All historical share and per share amounts have been restated to reflect these stock splits.

Earnings per Common Share—Net income per common share is computed by both the basic method, which uses the weighted average number of the Company's common shares outstanding, and the diluted method, which includes the dilutive common shares from stock options and warrants, as calculated using the treasury stock method.

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

Stock-Based Compensation—The Company accounts for its stock-based compensation under the intrinsic value outlined in Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB 25"). Accordingly, no compensation cost has been recognized for its stock compensation arrangements. If the compensation cost for the Company's compensation plans had been determined consistent with SFAS No. 123, *Accounting for Stock-Based Compensation*, the Company's net income and net income per common and common share equivalent would have changed to the pro forma amounts indicated below(in thousands, except per share data):

	2004	2003	2002
Net income—as reported	$ 17,932	$ 17,295	$ 11,310
Compensation cost under fair value-based accounting method—net of tax	4,373	2,957	1,436
Net income—pro forma	$ 13,559	$ 14,338	$ 9,874
Net income per common share:			

Basic:			
As reported	$ 0.68	$ 0.68	$ 0.47
Pro forma	0.52	0.56	0.41
Diluted:			
As reported	0.65	0.64	0.43
Pro forma	0.49	0.53	0.38

In applying the Black-Scholes methodology to the option grants, the Company used the following assumptions:

	Year Ended December 31,		
	2004	2003	2002
Risk-free interest rate	2.96% - 3.68%	2.32% - 3.23%	5.08% - 5.16%
Expected option life	2.5 years	5 years	5 years
Expected price volatility	47.54%	63.81%	63.24%

For options with a vesting period, compensation expense is recognized on a ratable basis over the service period which corresponds to the vesting period. Compensation expense is recognized immediately for options that are fully vested on the date of grant.

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

Concentration of Credit Risk—Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of temporary cash and cash equivalents and accounts receivable. The Company provides credit, in the normal course of business, primarily to hospitals and independent third-party packers and distributors. The Company performs ongoing credit evaluations of its customers and maintains allowances for potential credit losses. Sales to the Company's single largest customer approximated 7% of total sales for the years ended December 31, 2004, 2003 and 2002.

Foreign Currency—The financial statements of the Company's foreign subsidiaries, which are included within MHI, are measured using local currencies as the functional currency, with the exception of Ireland, which uses a United States dollar functional currency. Assets and liabilities are translated into United States dollars at year-end rates of exchange and results of operations are translated at average rates for the year. Gains and losses resulting from these translations are included in accumulated other comprehensive loss as a separate component of stockholders' equity.

Foreign currency transactions denominated in a currency other than the entity's functional currency are included in determining net income for the period. Such foreign currency transaction gains and losses have not been significant.

Foreign Currency Hedges—At December 31, 2004, the Company had a net exposure (representing the difference between Euro denominated receivables and Euro denominated payables) of approximately 230,000 Euros. In order to partially offset such risk at December 31, 2004, the Company entered into a 30-day forward Euro hedge contract with a notional amount of 230,000 Euros. The Company enters into similar hedging transactions various times during the year to partially offset exchange rate risks it bears throughout the year. The Company does not purchase or hold derivative financial instruments for speculative or trading purposes. The contract is marked to market at each month-end. During the year ended December 31, 2004, the Company recorded a net loss of approximately $8,000 on this forward Euro contract. As of December 31, 2004, the fair value of the open forward Euro contract was a net loss of approximately $8,000, which was accounted for as an economic hedge.

Accumulated Other Comprehensive Loss—Accumulated other comprehensive loss consists entirely of foreign currency translation adjustments.

Recently Issued Financial Accounting Standards—In December 2004, the FASB issued SFAS No. 123R, *Share-based Payment.* This standard is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation*, and supersedes Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, and its related implementation guidance. SFAS No. 123R requires the measurement of the cost of employees services received in exchange for an award of the entity's equity instruments based on the grant-date fair value of the award. The cost will be recognized over the period during which an employee is required to provide service in exchange for the award. No compensation cost is recognized for equity instruments for which employees do not render service. The Company will adopt SFAS No. 123R on July 1, 2005, which will require stock-based compensation expense to be recognized against earnings for the portion of outstanding unvested awards, based on the grant date fair value of those awards calculated using a Black-Scholes pricing model under SFAS 123 for pro forma disclosure. The Company is currently evaluating to what extent the entity's equity instruments will be used in the future for employees services and the transition provisions of this standard; therefore, the impact to the Company's financial statements of the adoption of SFAS No. 123R cannot be predicted with certainty.

In November 2004, the FASB issued SFAS No. 151, *Inventory Costs*, an amendment of ARB No. 43, Chapter 4, *Inventory Pricing*, to clarify that for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage), should be expensed as incurred and not included in overhead. In addition, this Statement requires the allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The provisions in SFAS No. 151 are effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company is currently assessing the impact of SFAS no. 151 on its consolidated financial statements.

In December 2004, the FASB issued Staff Position No. FAS 109-1, Application of FASB Statement No. 109, *Accounting for Income Taxes*, to the tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004 (the "Act") that provides a tax deduction on qualified production activities. Accordingly FASB indicated that this deduction should be accounted for as a special deduction in accordance with FASB Statement No. 109. The Company will comply with the provisions of FSP 109-1 effective January 1, 2005, and does not believe that the adoption of this FASB Staff Position will have a material impact on the Company's financial statements.

In December 2004, the FASB issued Staff Position No. FAS 109-2, *Accounting for Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004* ("the Act"). The Act introduced a special one-time dividends received deduction on the repatriation of certain foreign earnings to a U.S. taxpayer, provided certain criteria are met. FAS 109-2 provides accounting and disclosure guidance for

the repatriation provision, and was effective immediately upon issuance. The Company expects to complete its evaluation no later than December 31, 2005. The Company does not believe that the adoption of FAS 109-2 will have a material impact on the Company's financial statements.

Deferred Compensation—The Company has a deferred compensation plan that permits certain management employees to defer a portion of their salary until the future. The Company has established a rabbi trust to finance obligations under the Plan with corporate-owned variable life insurance contracts. The related cash surrender value on such contracts is included in "Other assets" in the Company's consolidated balance sheets. The cash surrender value totaled approximately $1,798,000 and $573,000 as of December 31, 2004 and 2003, respectively. The Company has recorded a "Deferred Compensation

Payable" of $1,702,000 and $579,000 at December 31, 2004 and 2003, respectively, to reflect its liability to its employees under this plan.

Reclassifications—Certain amounts have been reclassified in the prior year financials to conform with the current year presentation.

2. ACQUISITIONS

On November 17, 2004, the Company acquired all of the assets and assumed certain liabilities of MedSource Packaging Concepts LLC ("MedSource"), a privately held Virginia corporation, for a purchase price of approximately $1,464,000 consisting of $813,000 in cash, 100,000 warrants issued at a fair value of approximately $323,000 and the assumption of liabilities in the amount of approximately $329,900. This acquisition has been accounted for as a purchase in accordance with SFAS No. 141, *Business Combinations.* The excess of the purchase price, over the fair value of tangible and indentifiable intangible assets, of $805,000 was allocated to goodwill. The amount allocated to goodwill will be reviewed annually for impairment or more frequently if impairment indicators arise, in accordance with SFAS No. 142. The 100,000 warrants issued to MedSource were issued at a price of $10.13, with immediate vesting, subject to their registration with the Securities and Exchange Commission. The fair value of these warrants was calculated using the Black-Scholes model based on the assumptions outlined in Footnote 1 of these financial statements. MedSource is a packager of custom procedure trays with sterile and non-sterile medical devices for use in the medical industry. The operating results of MedSource have been included in the Company's consolidated statements of operations from the date of acquisition.

3. INVENTORIES

Inventories consist of the following at December 31, 2004 and 2003 (in thousands):

	2004	2003
Finished goods	$ 12,080	$ 11,996
Work-in-process	3,643	3,581
Raw materials	7,373	5,692
Total	$ 23,096	$ 21,269

4. INTANGIBLE ASSETS

Intangible assets consist of the following at December 31, 2004 and 2003 (in thousands):

	2004	2003
Patents, net	$ 1,608	$ 1,502
License agreements, net	190	171
Trademarks, net	192	173
Total	$ 1,990	$ 1,846

Aggregate amortization expense for the years ended December 31, 2004, 2003 and 2002 is approximately. $184,000, $158,000 and $227,000, respectively.

Estimated amortization expense for the intangible assets for the net five succeeding fiscal years is as follows (in thousands):

Year ending December 31:	
2005	$ 197
2006	197
2007	189
2008	187
2009	172

5. INCOME TAXES

Following is a summary of income before income taxes of US and foreign operations (in thousands):

	2004	2003	2002
Domestic	$ 26,666	$ 26,337	$ 15,210

Foreign	1,340	685	1,552
Total	$ 28,006	$ 27,022	$ 16,762

The components of the provision for income taxes are as follows (in thousands):

	2004	2003	2002
Current expense:			
Federal	$ 8,486	$ 7,993	$ 3,614
State	1,277	1,200	436
Foreign	359	104	108
	10,122	9,297	4,158
Deferred (benefit) expense:			
Federal	(120)	389	1,029
State	(2)	48	140
Foreign	74	(7)	125
	(48)	430	1,294
Total	$ 10,074	$ 9,727	$ 5,452

Income tax expense differs from amounts computed by applying the statutory Federal rate to pretax income as follows (in thousands):

	2004	2003	2002
Computed Federal income tax expense at statutory rate of 35%	$ 9,802	$ 9,458	$ 5,867
State income taxes	843	811	384
Tax credits	(88)	(375)	(356)
Extraterritorial income exclusion tax benefit	(372)	(298)	(118)
Income of subsidiaries recorded at foreign tax rates	(226)	(93)	(286)
Other—including the effect of graduated rates	115	224	(39)
Total income tax expense	$ 10,074	$ 9,727	$ 5,452

Deferred income tax assets and liabilities at December 31, 2004 and 2003 consist of the following temporary differences and carry-forward items (in thousands):

	Current		Long-Term	
	2004	2003	2004	2003
Deferred income tax assets:				
Allowance for uncollectible accounts receivable	$ 291	$ 300	$ —	$ —
Accrued compensation expense	430	627	800	
Inventory capitalization for tax purposes	99	199		
Inventory obsolescence reserve	563	608		
Tax credit carry-forwards			77	90
Net operating loss carry-forwards	56	53	358	302
Other	354	225	292	388
Total deferred income tax assets	1,793	2,012	1,527	780
Deferred income tax liabilities:				
Prepaid expenses	(1,872)	(1,791)		
Property and equipment			(4,013)	(3,598)
Other	(92)		(94)	(202)
Net	$ (171)	$ 221	$ (2,580)	$ (3,020)
Reported as:				
Deferred income tax asset	56	221		
Deferred income tax liability	(227)		(2,580)	(3,020)
Net	$ (171)	$ 221	$ (2,580)	$ (3,020)

Deferred income tax balances reflect the effects of temporary differences between the carrying amounts of assets and liabilities and their tax bases and are stated at enacted tax rates expected to be in effect when taxes are actually paid or recovered.

The Company has not provided U.S. deferred income taxes or foreign withholding taxes on the undistributed earnings of its non-U.S. subsidiaries since these earnings are intended to be reinvested indefinitely, in accordance with APB No. 23. It is not practical to estimate the amount of additional taxes that might be payable on such undistributed earnings.

As of December 31, 2004, the Company had net operating loss carry-forwards for U.S. federal income tax reporting purposes totaling $1.0 million that will begin to expire in 2020 through 2024 if not utilized. The Company has various state net operating loss carry-forwards, totaling $93,000 at December 31, 2004, which expire depending on the rules of the various states to which the net operating loss is allocated. The Company has not provided for a valuation allowance for its operating loss carry-forwards based on tax strategies that could be implemented if needed to ensure that the carryforwards are realized. The Company also has foreign operating loss carry-forwards totaling $531,000 that have no expiration date.

The Company has state research and development tax credit carry-forwards of approximately $77,000 that begin to expire in 2019.

6. ACCRUED EXPENSES

The Company's accrued expenses consist of the following at December 31, 2004 and 2003 (in thousands):

	2004	2003
Payroll taxes	$ 516	$ 536
Payroll	1,926	1,146
Bonuses	2,004	1,885
Commissions	418	416
Vacation	1,536	1,436
Other accrued expenses	2,067	2,569
Total	$ 8,467	$ 7,988

7. REVOLVING CREDIT FACILITY AND LONG-TERM DEBT

Revolving Credit Facility—The Company maintains a long-term revolving credit facility (the Facility) with a bank, which enables the Company to borrow funds at variable interest rates. The credit facility was voluntarily reduced to $500,000 in August 2002. The Facility expires on June 30, 2006. There were no outstanding borrowings on the facility at December 31, 2004 and 2003.Under the terms of the Facility, among other things, the Company is required to maintain a ratio of total liabilities to tangible net worth not to exceed 2.0 to 1.0, maintain a ratio of current assets to current liabilities of at least 1.5 to 1.0, maintain minimum working capital of $25,000,000, and is restricted from paying dividends to shareholders. For the years ended December 31, 2004 and 2003, management of the Company believes the Company was in compliance with all debt covenants. The Facility is collateralized by trade receivables, inventories, property and equipment, and intangible assets.

Long-term Debt—Long-term debt consists of the following at December 31, 2004 and 2003 (in thousands):

	2004	2003
Note payable to a financial institution; payable in monthly installments through 2005, at an interest rate of 7.41%; collateralized by equipment	$ —	$ 17
Capital lease obligations (see note 8)	12	
Less current portion	(7)	(17)
Long-term portion	$ 5	$ —

Scheduled maturities of long-term debt at December 31, 2004 are as follows (in thousands):

	Capital Leases
Year ending December 31:	
2005	$ 7
2006	1
2007	1
2008	2
2009	1
Total	$ 12

8. COMMITMENTS AND CONTINGENCIES

Leases—The Company has non-cancelable operating lease agreements for off-site office and production facilities and equipment. The leases for the off-site office and production facilities are for five years and have renewal options of one to five years. The terms of the leases for equipment range from five to seven years. Total rental expense on these operating leases and on the Company's manufacturing and office building (see below) for the years ended December 31, 2004, 2003 and 2002 approximated $2,622,000, $2,568,000 and $2,978,000, respectively.

In June 1993, the Company entered into a 25-year lease agreement with a developer for a manufacturing and office building. Under the agreement, the Company was granted an option to purchase the building at fair market value after 10 years and, if not exercised, after 25 years. In connection with this lease agreement, in 1993 the Company sold to the developer 10 acres of land on which the building was constructed. The $166,136 gain on the sale of the land has been recorded as a deferred credit and is being amortized as a reduction of rent expense over ten years. In connection with the lease

agreement, the Company issued to the developer warrants to purchase 431,836 shares of the Company's common stock at $1.78 per share subject to carrying cost increases of 3% per year. These warrants were exercised in January 2003 with total proceeds to the Company of approximately $950,000.

On December 22, 2000, the Company sold certain of its manufacturing equipment with a net carrying value of approximately $1,210,000 to a financial institution. The Company then entered into a six-year operating lease agreement for the same equipment. The approximate $70,000 gain on sale has been recorded as a deferred credit and is being amortized as a reduction of rental expense over six years.

The future minimum lease payments for operating leases as of December 31, 2004 are as follows (in thousands):

	Operating Leases
Year ending December 31:	
2005	$ 2,714,961
2006	2,466,974
2007	2,022,904
2008	1,709,279
2009	1,665,991
Thereafter	16,750,605
Total minimum lease payments	$ 27,330,714

Irish Government Development Agency Grants—Through December 31, 2003, the Company had entered into several grant agreements with the Irish Government Development Agency of which approximately $-0- remained in receivables at both December 31, 2004 and 2003. The Company has recorded the grants related to research and development projects and costs of hiring and training employees as a reduction of operating expenses in 2004, 2003 and 2002 in the amounts of approximately $13,000, $-0- and $163,000, respectively. Grants related to the acquisition of property and equipment purchased in Ireland are amortized as a reduction to depreciation expense over lives corresponding to the depreciable lives of such property. The balance of deferred credits related to such grants as of December 31, 2004 and 2003 are approximately $2,591,000 and $1,454,000, respectively. During 2004, 2003 and 2002, approximately $238,000, $229,000 and $167,000, respectively, of the deferred credit was amortized as a reduction of operating expenses. There is a commitment to repay the Irish government grants received from them if the Company were to cease production in Ireland within ten years of the receipt of the last government payment. Management does not believe it will ever have to repay any of these grant monies. As of December 31, 2004, the total amount of grants that could be subject to refund was approximately $5,000,000.

Preferred Share Purchase Rights—In August 1997, the Company declared a dividend of one preferred share purchase right (a "Right") for each outstanding share of common stock outstanding on August 27, 1997. Each right entitles the holder to purchase from the Company one one-hundredth of a share of Series A Junior Participating Preferred Stock at an exercise price of $40, subject to adjustments, in the event a person or group acquires, or announces an intention to acquire, 15% or more of the Company's common stock. Until such an event, the Rights are not exercisable and are transferable with the common

stock and may be redeemed at a price of $.0001 per Right. As of December 31, 2004, there are approximately 20,300,000 preferred share purchase rights outstanding.

Litigation—In the ordinary course of business, the Company is involved in litigation and claims which management believes will not have a materially adverse effect on the Company's financial position or results of operations. During 2004 and 2003, the Company recorded a gain of $100,000 and $475,000, respectively, from the settlement of a legal dispute which amount is included in other income.

9. EARNINGS PER COMMON SHARE (EPS)

The following table sets forth the computation of shares outstanding and the basic and diluted earnings per common share (in thousands except per share data):

	Net Income	Shares	Per Share Amount
Year ended December 31, 2004:			
Basic EPS	$ 17,932	26,301	$ 0.68
Effect of dilutive stock options and warrants		1,390	
Diluted EPS	$ 17,932	27,691	$ 0.65
Year ended December 31, 2003:			
Basic EPS	$ 17,295	25,401	$ 0.68
Effect of dilutive stock options and warrants		1,633	
Diluted EPS	$ 17,295	27,034	$ 0.64
Year ended December 31, 2002:			
Basic EPS	$ 11,310	24,226	$ 0.47
Effect of dilutive stock options and warrants		2,012	
Diluted EPS	$ 11,310	26,238	$ 0.43

For the years ended December 31, 2004, 2003 and 2002, approximately 769,000, 449,000 and -0-, respectively, of stock options were not included in the computation of diluted earnings per share because they would have been antidilutive.

10. EMPLOYEE STOCK PURCHASE PLAN AND STOCK OPTIONS AND WARRANTS

The Company offers to its employees an Employee Stock Purchase Plan ("ESPP") which allows the employee on a quarterly basis to purchase shares of the Company's common stock at the lesser of 85% of the market value on the offering commencement date or offering termination date. The Company has a qualified and a non-qualified ESPP, which expire on June 30, 2006. The total number of shares available to employees to purchase under the qualified plan is 1,194,444 of which 816,384 have been purchased as of December 31, 2004. The total number of shares available to employees to purchase under the non-qualified plan is 194,444 of which 56,001 have been purchased as of December 31, 2004.

The Company has a long-term incentive plan which provides for the issuance of incentive stock options, nonstatutory stock options and certain corresponding stock appreciation rights. The maximum number of shares of common stock for which options may be granted is 11,111,111. Options may be granted to directors, officers, outside consultants and key employees of the Company and may be granted upon such terms and such conditions as the Compensation Committee in its sole discretion shall determine. Options vest either 20% per year over a 4.5 or 5 year life with contractual lives of 5 and 10 years, respectively. The Company also has options that vest 100% upon grant with contractual lives of 10 years. In no event, however, shall the exercise price be less than the fair market value on the date of grant. Under a provision of the Company's stock incentive plan, participants are allowed to surrender mature shares of the Company's common stock for the payment of the option price and minimum statutory taxes associated with the exercise of options. The shares surrendered must be shares the participant has held for more than six months. The value of the mature shares surrendered is based on the closing price of the Company's common stock on the date of exercise by the participant.

Changes in stock options and warrants for the years ended December 31, 2004, 2003 and 2002 are as follows (shares in thousands):

	Options		Warrants	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
2004:				
Granted	812	$ 14.63	100	$ 10.13
Exercised	479	3.82		
Forfeited/expired	150	9.56		
Outstanding at December 31	4,371	9.28	100	10.13
Exercisable	2,674	9.36	100	10.13
Weighted average fair value of options granted during year		$ 4.54		$ 3.23
Weighted average fair value of shares issued under Employee Stock Purchase Plan		$ 2.52		

	Options		Warrants	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
2003:				
Granted	1,532	$ 13.33		
Exercised	976	2.84	431,836	$ 2.19
Forfeited/expired	50	5.66		
Outstanding at December 31	4,188	7.63		
Exercisable	1,530	5.67		
Weighted average fair value of options granted during year		$ 7.46		
Weighted average fair value of shares issued under Employee Stock Purchase Plan		$ 2.67		

	Options		Warrants	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
2002:				
Granted	149	$ 9.47		
Exercised	876	2.20		
Forfeited/expired	51	3.92		
Outstanding at December 31	3,682	3.96	431,836	$ 2.19
Exercisable	1,568	3.30	431,836	2.19
Weighted average fair value of options granted during year		$ 3.59		
Weighted average fair value of shares issued under Employee Stock Purchase Plan		$ 1.47		

The following table summarizes information about stock options outstanding at December 31, 2004 (shares in thousand):

Options Outstanding				Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$1.62 — $2.85	1,203	4.63	$ 2.02	769	$ 2.00
$4.06 — $9.74	1,746	7.49	8.66	685	8.29
$10.47 — $15.03	995	9.55	13.49	1,062	13.57
$21.67 — $21.67	427	8.95	21.67	158	21.67
$1.62 — $21.67	4,371	7.37	$ 9.30	2,674	$ 9.36

11. SEGMENT REPORTING AND FOREIGN OPERATIONS

During the years ended December 31, 2004, 2003, and 2002, the Company had foreign sales of approximately $37,522,000, $34,263,000, and $27,062,000 or approximately 25%, 25% and 23%, respectively, of total sales, primarily in Japan, Germany, France and the United Kingdom. Foreign sales are attributed based on location of the customer receiving the product.

The Company operates primarily in one segment in which it develops, manufactures and markets disposable medical products, principally for use in the diagnosis and treatment of cardiovascular disease. Major operations outside the United States include a manufacturing facility in Ireland, a distribution facility in the Netherlands, and sales subsidiaries in Europe. The following is a summary of how the Company manages and reports its worldwide operations for fiscal years 2004, 2003, and 2002 (in thousands):

	Sales to Unaffiliated Customers	Transfers Between Geographic Areas	Net Sales	Identifiable Assets
Fiscal year ended December 31, 2004:				
United States, Canada and international distributors	$ 126,537	$ 2,244	$ 128,781	$ 113,038
Europe direct and European distributors	24,861	11,826	36,687	25,839
Eliminations		(14,070)	(14,070)	
Consolidated	$ 151,398	$ —	$ 151,398	$ 138,877
Fiscal year ended December 31, 2003:				
United States, Canada and international distributors	$ 115,847	$ 1,891	$ 117,738	$ 88,877
Europe direct and European distributors	20,106	9,374	$ 29,480	18,424
Eliminations		(11,265)	$ (11,265)	
Consolidated	$ 135,953	$ —	$ 135,953	$ 107,301
Fiscal year ended December 31, 2002:				
United States, Canada and international distributors	$ 99,694	$ 1,787	$ 101,481	$ 65,104
Europe direct and European distributors	16,533	9,078	25,611	13,201
Eliminations		(10,865)	(10,865)	
Consolidated	$ 116,227	$ —	$ 116,227	$ 78,305

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

Following is a summary of the Company's long-lived assets by geographic area (in thousands):

	2004	2003
United States	$ 38,337	$ 21,489
Ireland	14,098	7,622
Other foreign countries	57	86
Total	$ 52,492	$ 29,197

12. ROYALTY AGREEMENTS

Pursuant to a 1992 settlement agreement, the Company entered into a license agreement with another medical product manufacturer (the "Licensor"), whereby the Licensor granted to the Company a nonexclusive right and license to manufacture and sell products which are subject to the patents issued to the Licensor. The license agreement will terminate upon the expiration or invalidation of the last related

patents, which will expire in August 2008. For the rights and license granted under the agreement, the Company paid the Licensor a nonrefundable prepaid royalty in the amount of $600,000. In addition to the prepaid royalty, the Company agreed to pay the Licensor a continuing royalty of 5.75% of sales (which will not exceed $450,000 for any calendar year) made in the United States, of products covered by the license agreement. Royalties of $450,000 were paid or accrued in each of the years ended December 31, 2004, 2003 and 2002.

During 2002, the Company entered into a license agreement with another medical product manufacturer (the "Licensor"), whereby the Licensor granted to the Company an exclusive worldwide license to manufacture and sell products which are subject to the patents issued to the Licensor. For the rights and license granted under the agreement, the Company agreed to pay the Licensor a royalty of 5% of net sales, which will not exceed $62,500 for calendar year 2003 and $75,000 per year for calendar year 2004 through 2006.

13. EMPLOYEE BENEFIT PLAN

The Company has a contributory 401(k) savings and profit sharing plan (the "Plan") covering all full-time employees who are at least 18 years of age. The Plan has no minimum service requirement. The Company may contribute at its discretion matching contributions based on the employees' compensation. Contributions made by the Company to the Plan for the years ended December 31, 2004, 2003 and 2002 totaled approximately $692,000, $629,000 and $499,000, respectively.

14. SUBSEQUENT EVENTS

During the fourth quarter of 2004 the Company advanced $1.0 million as a promissory note to be applied against the purchase price of an anticipated business combination. On March 1, 2005, the company to be acquired signed a letter of intent with the Company for $30,000 in cash and the release of the promissory note in exchange to purchase all of the assets (excluding intellectual property) and product know-how. The Company was unable to acquire the entire company as the result of certain patent issues. The Company plans to allocate the purchase price of $1,030,000, which includes the $30,000 in cash and $1.0 million relating to the release of the promissory note between the fair value of assets acquired and other identifiable intangible assets. The Company intends to develop a new product line with the product know-how acquired.

On February 3, 2005, the Board of Directors accelerated the vesting on 427,448 options with an exercise price of $21.67, which were in excess of the current market price. Management believes, that the acceleration of these options will reduce the compensation expense in future periods under the provisions of SFAS No. 123R, which is in the best interest of the Company and its shareholders.

On March 4, 2005, the Board of Directors approved to resume its prior Stock Purchase Program effective March 11, 2005. The Board of Directors has authorized management to repurchase, within its discretion, up to 1,000,000 shares of Merit common stock.

15. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

Quarterly data for the years ended December 31, 2004, 2003 and 2002 is as follows (in thousands except per share data):

	Quarter Ended			
	March 31	June 30	September 30	December 31
2004				
Net sales	$ 37,663	$ 38,921	$ 35,475	$ 39,339
Gross profit	16,433	18,009	15,792	17,213
Income from operations	6,706	7,940	6,126	5,390
Income tax expense	2,537	3,009	2,040	2,077
Net income	4,376	5,071	4,189	3,707
Basic earnings per common share	0.17	0.19	0.16	0.14
Diluted earnings per common share	0.16	0.18	0.15	0.13
2003				
Net sales	$ 31,741	$ 34,577	$ 34,507	$ 35,128
Gross profit	13,271	15,181	15,977	16,294
Income from operations	5,291	6,534	7,084	7,228
Income tax expense	2,082	2,404	2,557	2,685
Net income	3,752	4,205	4,652	4,686
Basic earnings per common share	0.15	0.17	0.18	0.18
Diluted earnings per common share	0.14	0.16	0.17	0.17
2002				
Net sales	$ 28,672	$ 28,789	$ 29,341	$ 29,425
Gross profit	11,152	12,033	12,556	12,774
Income from operations	3,483	4,104	4,624	4,564
Income tax expense	1,096	1,376	1,509	1,471
Net income	2,327	2,702	3,125	3,156
Basic earnings per common share	0.10	0.11	0.13	0.13
Diluted earnings per common share	0.09	0.10	0.12	0.12

During the fourth quarter ended December 31, 2004 the Company accrued severance costs totaling approximately $663,000 related to the termination of certain employees.

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SUPPLEMENTARY FINANCIAL DATA

The supplementary financial information required by Item 302 of Regulation S-K is contained in Note 12 to the consolidated financial statements of the Company set forth above.

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

None

Item 9A. Controls and Procedures.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. Merit's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Internal control over financial reporting includes those written policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of Merit Medical Systems, Inc.;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America;
- Provide reasonable assurance that receipts and expenditures of Merit Medical Systems, Inc. are being made only in accordance with authorization of management and directors of Merit Medical Systems, Inc.; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the consolidated financial statements.

Internal control over financial reporting includes the controls themselves, monitoring and internal auditing practices and actions taken to correct deficiencies as identified.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Merit's management assessed the effectiveness of the company's internal control over financial reporting as of December 31, 2004, except for the internal control over financial reporting at MedSource, which was acquired on November 17, 2004 and whose financial statements reflect total assets and revenues both constituting less than 1% of the related consolidated financial statement amounts as of and for the year ended December 31, 2004. In making this assessment, Merit's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on those criteria and management's assessment, the Company believes that, as of December 31, 2004, Merit's internal control over financial reporting is effective.

Merit's independent auditors have issued an audit report on our assessment of the company's internal control over financial reporting. This report appears below.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited management's assessment, included in the accompanying Report on Internal Control Over Financial Reporting, that Merit Medical Systems Inc. and subsidiaries (the "Company") maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in Management's Report on Internal Control Over Financial Reporting, management excluded from their assessment the internal control over financial reporting at MedSource Packaging Concepts LLC ("MedSource") which was acquired on November 17, 2004 and whose financial statements reflect total assets and revenues both constituting less than one percent of the related consolidated financial statement amounts as of and for the year ended December 31, 2004. Accordingly, our audit did not include the internal control over financial reporting at MedSource. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on the criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on the criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2004, of the Company and our report dated March 11, 2005 expressed an unqualified opinion on those financial statements and financial statement schedule.

/s/ Deloitte & Touche LLP

Salt Lake City, Utah
March 11, 2005

PART III

Item 10, 11, 12, 13 and 14

These items are incorporated by reference to the Company's definitive Proxy Statement relating to the Annual Meeting of Shareholders scheduled for May 25, 2005. The definitive Proxy Statement will be filed with the Commission not later than 120 days after December 31, 2004, pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended.

PART IV

Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8–K.

(a) Documents filed as part of this report:

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

- Report of Independent Registered Public Accounting Firm — Internal Control
- Report of Independent Registered Public Accounting Firm — Financial Statements
- Consolidated Balance Sheets as of December 31, 2004 and 2003
- Consolidated Statements of Operations for the Years Ended December 31, 2004, 2003, and 2002
- Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2004, 2003, and 2002
- Consolidated Statements of Cash Flows for the Years Ended December 31, 2004, 2003, and 2002
- Notes to Consolidated Financial Statements

(2) Financial Statement Schedule

- Schedule II - - Valuation and qualifying accounts

VALUATION AND QUALIFYING ACCOUNTS
YEARS ENDED DECEMBER 31, 2003, 2002, AND 2001

(In Thousands)

Description	Balance at Beginning of Year	Additions Charged to Costs Expenses (a)	Deduction (c)	Balance at End of Year
ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS:				
2002	(409)	(81)	14	(476)
2003	(476)	(323)	50	(749)
2004	(749)	(114)	134	(729)

(a) The Company records a bad debt provision based upon historical experience and a review of individual customer balances.
(c) When an individual customer balance becomes impaired and is deemed uncollectible a deduction is made against the allowance for uncollectible accounts.

Description	Balance at Beginning of Year	Additions Charged to Costs Expenses (b)	Deductions(d)	Balance at End of Year
RESERVE FOR INVENTORY OBSOLESCENCE:				
2002	(3,395)	(1,831)	2,458	(2,768)
2003	(2,768)	(932)	1,323	(2,377)
2004	(2,377)	(692)	760	(2,309)

(b) The Company writes down its inventory for estimated obsolescence for ummarketable and/or slow moving products that may expire prior to being sold.
(d) When a previously reserved for inventory item is either disposed of or sold the Company records a deduction to its reserve for obsolescence inventory.

All other schedules have been omitted because they are not required, not applicable, or the information is otherwise set forth in the financial statements or notes thereto.

(b) Reports on Form 8–K:

Form 8-K	Date of Event	Description
Items 7.01 and 9.01	10/13/2004	Merit pre-announces preliminary results for the third quarter of 2004.
Items 2.02,7.01, and 9.01	10/26/2004	Merit annouces financial and operating results for the three and nine months ended September 31, 2004.
Items 7.01 and 9.01	11/23/2004	Merit acquires assets of MedSource Packaging Concepts LLC.

(c) Exhibits:

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

	Description	Exhibit No.
3.1	Articles of Incorporation of the Company, as amended and restated*	[Form 10-Q filed August 14, 1996, Exhibit No. 1]
3.2	Bylaws of the Company*	[Form S-18 filed October 19, 1989, Exhibit No. 2]
4	Specimen Certificate of the Company's Common Stock, no par value*	[Form S-18 filed October 19, 1989, Exhibit No. 10]
4.3	Articles of Amendment of the Articles of Incorporation dated May 14, 1993*	[Form S-3 filed February 14, 2005, Exhibit 4.3]
4.4	Articles of Amendment to Articles of Incorporation dated June 6, 1996*	[Form S-3 filed February 14, 2005, Exhibit 4.4]
4.5	Articles of Amendment to Articles of Incorporation dated June 12, 1997*	[Form S-3 filed February 14,

		2005, Exhibit 4.5]
4.7	Articles of Amendment to the Articles of Incorporation dated May 22, 2003*	[Form S-3 filed February 14, 2005, Exhibit 4.7]
10.1	Merit Medical Systems, Inc. Long Term Incentive Plan (as amended and restated) dated March 25, 1996*	[Form 10-Q filed August 14, 1996, Exhibit No. 2]
10.2	Merit Medical Systems, Inc. 401(k) Profit Sharing Plan (as amended effective January 1, 1991*	[Form S-1 filed February 14, 1992, Exhibit No. 8]
10.3	License Agreement, dated April 8, 1992 between the Company and Utah Medical Products, Inc.*	[Form S-1 filed February 14, 1992, Exhibit No. 5]
10.4	Lease Agreement dated as of June 8, 1993 for office and manufacturing facility*	[Form 10-K for year ended December 31, 1994, Exhibit No. 10.5]
10.5	Amended and Restated Loan Agreement with Zion's First National Bank dated August 11, 1999*	[Form 10-K for year ended December 31, 1995, Exhibit No. 10.5
10.6	Amendment to Loan Agreement with Zion's First National Bank 3/11/2002*	Form 10-K for year ended December 31, 2000, Exhibit No. 10.6]
10.7	Fifth Amendment to Loan Agreement with Zion's First National Bank Date November 15, 2002*	[Form 10-K for year ended December 31, 2002, Exhibit No. 10.7]
10.8	Employment agreement between the Company and Fred P. Lampropoulos*	[Form 10-K for year ended December 31, 2002, Exhibit No. 10.8]
10.9	Employment agreement between the Company and Kent W. Stanger*	[Form 10-K for year ended December 31, 2002, Exhibit No. 10.9]
10.10	Employment agreement between the Company and B. Leigh Weintraub*	[Form 10-K for year ended December 31, 2002, Exhibit No. 10.10]

10.11	Employment agreement between the Company and Brian Ferrand*	[Form 10-K for year ended December 31, 2003, Exhibit No. 10.11]
10.12	Amended and Restated Deferred Compensation plan*	[Form 10-K for year ended December 31, 2003, Exhibit No. 10.12]
10.13	Purchase agreement dated November 17, 2004 between the Company and MedSource Packaging Concepts LLC	Filed herewith
10.14	Severance Agreement dated October 18, 2004 between the Company and Brian Ferrand	Filed herewith
21	Subsidiaries Of Merit Medical Systems, Inc	Filed herewith
23.1	Consent of Independent Registered Public Accounting Firm	Filed herewith
31.1	Certification of Chief Executive Officer	Filed herewith
31.2	Certification of Chief Financial Officer	Filed herewith
32.1	Certification of Chief Executive Officer	Filed herewith
32.2	Certification of Chief Financial Officer	Filed herewith

* These exhibits are incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 15, 2005.

MERIT MEDICAL SYSTEMS, INC.

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

ADDITIONAL SIGNATURE AND POWER OF ATTORNEY

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on March 10, 2005. In addition, each person whose signature to this report appears below hereby constitutes and appoints Fred P. Lampropoulos and Kent W. Stanger, and each of them, as his true and lawful attorney-in-fact and agent, with full power of substitution, to sign on his behalf individually and in the capacity stated below and to perform any acts necessary to be done in order to file all amendments and post-effective amendments to this report, and any and all instruments or documents filed as part of or in connection with this report or the amendments thereto and each of the undersigned does hereby ratify and confirm all that said attorney-in-fact and agent, or his substitutes, shall do or cause to be done by virtue hereof.

Signature	Capacity in Which Signed
/s/: FRED P. LAMPROPOULOS Fred P. Lampropoulos	President, Chief Executive Officer and Director
/s/: KENT W. STANGER Kent W. Stanger	Chief Financial Officer, Secretary, Treasurer and Director (Principal financial and accounting officer)
/s/: RICHARD W. EDELMAN Richard W. Edelman	Director
/s/: REX C. BEAN Rex C. Bean	Director
/s/: JAMES J. ELLIS James J. Ellis	Director
/s/: MICHAEL E. STILLABOWER Michael E. Stillabower	Director

Exhibit 10.13

ASSET PURCHASE AGREEMENT

THIS ASSET PURCHASE AGREEMENT dated as of the 17th day of November, 2004 (this "Agreement"), is made and entered into by and among Merit Medical Systems, Inc. ("Purchaser"), MedSource Packaging Concepts LLC, a Virginia limited liability company ("Seller"), and each of the following individual residents of the Commonwealth of Virginia: Robert E. Hale ("Hale"), Charles Long ("Long"), Gary W. Kazee ("Kazee"), Willis P. Blackwood ("Blackwood"), Robert C. Walker ("Walker"), Tommy J. West ("West"), and David T. Richardson ("Richardson") (all such individuals collectively are referred to as the "Members," and individually each a "Member"), relating to the sale of the assets of Seller's medical supplies and products packaging, marketing, distribution, sales and services business to Purchaser. Robert E. Hale shall serve as the "Member Representative" for purposes of this Agreement.

WHEREAS, each of the board of directors of Purchaser and the Members and managers of Seller has approved, and deems it advisable and in the best interests of its respective shareholders or members to consummate the sale by Seller and acquisition by Purchaser of the Acquired Assets (as defined herein), subject only to those liabilities expressly assumed herein by Purchaser, upon the terms set forth herein.

WHEREAS, the Members are the sole members of Seller, and each of the Members has approved of, and consented to, the sale of the Acquired Assets to Purchaser.

NOW, THEREFORE, in consideration of the foregoing premises and the representations, warranties, covenants and agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound hereby, the parties hereto hereby agree as follows:

ARTICLE I- DEFINITIONS AND INTERPRETATION

Section 1.1 Definitions. For all purposes of this Agreement, except as otherwise expressly provided or unless the context clearly requires otherwise:

"Accounts Receivable" means any and all trade accounts, notes and other receivables of Seller in respect of the Business and all claims relating thereto or arising therefrom.

"Affiliate" shall have the meaning set forth in Rule 12b-2 of the Exchange Act.

"Agreement" or "this Agreement" shall mean this Asset Purchase Agreement, together with the Exhibits hereto and the Disclosure Schedule.

"Applicable Law" shall mean any law, regulation, rule, order, judgment or decree to which the Business, the Acquired Assets or Seller is subject.

"Acquired Assets" has the meaning set forth in Section 2.1(a).

"Associate" shall have the meaning set forth in Rule 12b-2 of the Exchange Act.

"Assumed Contracts" shall have the meaning set forth in Section 2.1(a)(ii).

"Assumed Liabilities" has the meaning set forth in Section 2.3.

"Business" shall mean the medical supplies and products packaging, marketing, distribution, sales and services business heretofore conducted by Seller, including the Acquired Assets and all the goodwill appurtenant to such business.

"Closing" shall mean the closing referred to in Section 3.1.

"Closing Date" shall mean the date of execution hereof.

"COBRA" shall mean Sections 601 through 607 of ERISA, Section 4980B of the Code, and any comparable state or foreign laws requiring the provision of continuation coverage for former employees under any Seller group health plan.

"Code" shall mean the Internal Revenue Code of 1986, as amended.

"Contract" shall mean any agreement, contract, purchase or sale order, mortgage, indenture, lease, franchise or other instrument relating to the Business to which Seller is a party or by which the Business or any of the Acquired Assets is bound.

"Computer Software" shall mean computer software programs, databases and all documentation related thereto.

"Defect" shall mean a defect or impurity of any kind, whether in design, workmanship, manufacture, processing, or otherwise, including any dangerous propensity associated with any reasonably foreseeable use of an item, or the failure to warn of the existence of any defect, impurity, or dangerous propensity other than the dangerous propensities inherent therein.

"Disclosure Schedule" shall mean the disclosure schedule of even date herewith prepared and signed by each of the Seller and the Members and delivered to Purchaser simultaneously with the execution hereof.

"Encumbrances" shall mean any and all liens, charges, security interests, options, claims, mortgages, charges, easements, restrictions on use of enjoyment, pledges, proxies, voting trusts or agreements, obligations, understandings or arrangements imposing restrictions on title or use or other restrictions on title or transfer of any nature whatsoever.

"Environmental Claim" shall mean any claim, action, cause of action, investigation or notice (written or oral) by any Person alleging actual or potential liability for investigatory, cleanup or governmental response costs, or natural resources or property damages, or personal injuries, attorneys' fees or penalties relating to (i) the presence, or release into the environment, of any Materials of Environmental Concern at any location owned or operated by Seller related to the Business, now or in the past, or (ii) circumstances forming the basis of any violation, or alleged violation, of any Environmental Law.

"Environmental Law" shall mean each federal, state, local and foreign law and regulation relating to pollution, protection or preservation of human health or the environment, including ambient air, surface water, ground water, land surface or subsurface strata, and natural resources, and including each law and regulation relating to emissions, discharges, releases or threatened releases of Materials of Environmental

Concern, or otherwise relating to the manufacturing, processing, distribution, use, treatment, generation, storage, containment (whether above ground or underground), disposal, transport or handling of Materials of Environmental Concern, or the preservation of the environment or mitigation of adverse effects thereon and each law and regulation with regard to record keeping, notification, disclosure and reporting requirements respecting Materials of Environmental Concern.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended.

"ERISA Affiliate" shall mean any trade or business, whether or not incorporated, that together with Seller would be deemed a "single employer" within the meaning of Section 4001(b) of ERISA.

"Escrow Agreement" shall have the meaning set forth in Section 2.5(b).

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

"Financial Statements" shall mean each of the Business' (i) balance sheets as of June 30, 2004, March 31, 2004, and each of December 31, 2003, 2002 and 2001; (ii) statements of operations for the three month and six month periods ending March 31, 2004 and June 30, 2004, respectively, and for the 12-month periods ended December 31, 2003, 2002 and 2001, respectively; and (iii) statements of cash flows for the three month and six month periods ending March 31, 2004 and June 30, 2004, respectively, and for the 12-month periods ended December 31, 2003, 2002 and 2001, respectively.

"GAAP" shall mean United States generally accepted accounting principles, as consistently applied.

"Governmental Entity" shall mean a court, arbitral, tribunal, administrative agency or commission or other governmental or regulatory authority or agency or any state, city, county, or other governmental or quasi-governmental body having any jurisdiction over the Business, Acquired Assets, Seller or Members.

"Indebtedness" shall mean (i) all indebtedness for borrowed money or for the deferred purchase price of property or services (other than current trade liabilities incurred in the ordinary course of business and payable in accordance with customary practices), (ii) any other indebtedness that is evidenced by a loan agreement, note, bond, debenture or similar instrument, (iii) all obligations under financing leases, (iv) all liabilities secured by any lien on any property, and (v) all guarantee obligations.

"Intellectual Property" shall mean all (i) trademarks (U.S. and foreign registered and unregistered trademarks, trade dress, domain names, service marks, logos, trade names, business names and all registrations and applications to register the same), (ii) patents (issued U.S. and foreign patents and pending patent applications, patent disclosures, and any and all divisions, continuations, continuations-in-part, reissues, reexaminations, and extensions thereof, any counterparts claiming priority therefrom, utility models, patents of importation/confirmation, certificates of invention and like statutory rights), (iii) copyrights (U.S. and foreign registered and unregistered copyrights, including those in computer software and databases, rights of publicity and all registrations and applications to register the same), (iv) trade secrets (all categories of trade secrets as defined in the Uniform Trade Secrets Act, including business information), (v) licenses (all licenses and agreements pursuant to which Seller has acquired rights in or to any trademarks, patents or copyrights used by or for the benefit of the Business, or

licenses and agreements pursuant to which Seller has licensed or transferred the right to use any trademark, patent or copyright which constitutes a part of the Acquired Assets), and (vi) all proprietary and confidential information of Seller and all of Seller's other information and intangible property rights that are currently owned by Seller or the Business for the benefit of the Business or used in the Business or that is necessary to conduct the Business as presently conducted, including, without limitation: (a) trade secrets, technical information, know-how, designs, processes, patents, patent applications, and copyrights, and all improvements thereof, (b) all data, files, books and records, customer lists, and order information, (c) the name "MedSource Packaging Concepts" (and any derivatives of such name), and (d) all Internet domain names and sites, email addresses, telephone numbers (and related directory listings) and similar information and rights.

"Knowledge of Seller" concerning a particular area or aspect of the Acquired Assets, Business or related affairs shall mean the knowledge of each Member and of each of Seller's management personnel of the Business and all knowledge which was or could have been obtained upon inquiry by such of Seller's management level employees whose duties would, in the normal course of Seller's affairs, result in such management level employees having knowledge concerning such area or aspect.

"Lease" shall mean each lease pursuant to which Seller (for the use or benefit of the Business) leases any real or personal property.

"Liabilities" shall mean the debts, liabilities, claims, demands, expenses, commitments and obligations (whether accrued or not, known or unknown, disclosed or undisclosed, fixed or contingent, asserted or unasserted, liquidated or unliquidated, arising prior to, at or after the Closing) of Seller (other than the Retained Liabilities).

"Material Adverse Effect" means an effect on the financial condition, results of operations, prospects or business of the Business or the Acquired Assets or Liabilities of the Business, each taken as a whole (other than as a result of changes (a) in law or applicable regulations or the official interpretations thereof, or (b) in GAAP) that may reasonably be considered material by Purchaser in its evaluation of Seller and the Business.

"Materials of Environmental Concern" shall mean chemicals, pollutants, contaminants, wastes, toxic or hazardous substances, materials and wastes, petroleum and petroleum products, asbestos and asbestos-containing materials, polychlorinated biphenyls, lead and lead-based paints and materials, and radon.

"Multiemployer Plan" has the meaning set forth in Section 3(37) of ERISA.

"Payoff Consideration" has the meaning set forth in section 2.5(a).

"Permits" means permits, certificates, licenses, filings, approvals and other authorizations of any Governmental Entity.

"Person" shall mean a natural person, partnership, corporation, limited liability company, business trust, joint stock company, trust, unincorporated association, joint venture, Governmental Entity or other entity or organization.

"Plan" shall mean each deferred compensation and each incentive compensation, stock or unit purchase, stock or unit option and other equity compensation plan, program, agreement or arrangement; each severance or termination pay, medical, surgical, hospitalization, life insurance and other "welfare" plan, fund or program (within the meaning of Section 3(1) of ERISA); each profit-sharing, unit bonus or other plan, fund, or program that is a "pension plan" (within the meaning of Section 3(2) of ERISA); each employment, termination or severance agreement; and each other employee benefit plan, fund, program, agreement or arrangement, in each case, that is sponsored, maintained or contributed to, or required to be contributed to, by Seller or by any ERISA Affiliate, or to which Seller or an ERISA Affiliate is party or has any obligations, whether written or oral, for the benefit of any Member, manager, consultant, employee or former employee of the Business.

"Product" shall mean any product or component thereof, built, designed, manufactured, shipped, sold, marketed, distributed, packaged and/or otherwise introduced into the stream of commerce by Seller on behalf of the Business, including any product sold by Seller as the distributor, agent, or pursuant to any other contractual relationship with a third-party manufacturer or vendor.

"Purchase Price" has the meaning set forth in Section 2.5(a).

"Purchaser" shall mean Merit Medical Systems, Inc., a Utah corporation.

"Purchaser Indemnified Persons" shall mean Purchaser and each of its Affiliates.

"Purchaser Losses" shall mean any and all actual losses, liabilities, damages, judgments, settlements and expenses (including interest and penalties recovered by a third party with respect thereto and reasonable attorneys' fees and expenses and reasonable accountants' fees and expenses incurred in the investigation or defense of any of the same or in asserting, preserving or enforcing any of the rights of Purchaser arising under Article IX) incurred by any of the Purchaser Indemnified Persons that arise out of:

(i) any breach by any of Seller or Members of any of their representations and warranties contained in or made by or pursuant to this Agreement;

(ii) any of the events, circumstances or conditions described in Section 4.16 hereof, any pollution or threat to human health or the environment that (A) is related in any way to the Business or management, use, control, ownership or operation of the properties of the Business prior to the Closing, including all on-site and off-site activities involving Materials of Environmental Concern, and (B) occurred, existed, or arises out of conditions or circumstances that occurred or existed, or was caused, in whole or in part, on or before the Closing Date, whether or not the pollution or threat to human health or the environment is described in the Disclosure Schedule; or any Environmental Claim against the Business or any Person whose liability for such Environmental Claim the Business has assumed or retained either contractually or by operation of law;

(iii) any breach by any of the Seller or Members of any of their covenants in this Agreement that survive the Closing;

(iv) any of the Retained Liabilities; or

(v) the waiver by the Parties of Virginia's "Bulk Sales" statute.

All statements contained in any exhibit, schedule or other writing delivered by any of the Seller or Members pursuant hereto or in connection with the Transactions shall be deemed representations and warranties.

"Real Property" shall mean the real property that is the subject of the Real Property Lease.

"Real Property Leases" shall mean those two certain Leases, (a) the first, dated 4/25/01, between Seller and Carl York, Jr., and Richard Lert, Trustees of the Ariana Austin Fairbanks of 1976 Waimalu Trust; Carl York, Jr., and Richard Lert, Trustees of the Ariana Austin Fairbanks Trust, dated April 28, 1978; Carl York, Jr., and Linda S. Dalby, Trustees of the 1976 Waimalu Mauku Trust; and Carl York, Jr., and Linda S. Dalby, Trustees of the Waibalu Mauko Trust, dated February 27, 1980 (Landlord), and (b) the second, dated November 10, 2000, between Seller and Eskimo Pie Corporation, which Lease was assigned, effective May 15, 2003, to 901 Moorefield LLC (Landlord), and includes all rights and appurtenances pertaining to such lease and property, including all easements, rights, interests, tenements, hereditaments and privileges.

"Required Consents" shall mean consents related to agreements which involve the payment or receipt by Seller of amounts in excess of $5,000 per annum or other agreements that may be material or have a material impact on the Business.

"Retained Assets" has the meaning set forth in Section 2.2.

"Retained Liabilities" has the meaning set forth in Section 2.4.

"Seller Indemnified Persons" shall mean each of Seller and its Affiliates.

"Seller Losses" shall mean any and all actual losses, liabilities, damages, judgments, settlements and expenses (including interest and penalties recovered by a third party with respect thereto and reasonable attorneys' fees and expenses and reasonable accountants' fees and expenses incurred in the investigation or defense of any of the same or in asserting, preserving or enforcing any of Seller's rights) incurred by any of the Seller Indemnified Persons arising out of:

(i) any breach by Purchaser of any of its representations and warranties contained in or made by or pursuant to this Agreement; or

(ii) any breach by Purchaser of any of its covenants in this Agreement that survive the Closing.

"Tax" or "Taxes" shall mean all taxes, charges, fees, duties, levies, penalties or other assessments imposed by any federal, state, local or foreign governmental authority, including income, gross receipts, excise, property, sales, gain, use, license, custom duty, unemployment, capital stock, unit or membership interest, transfer, franchise, payroll, withholding, social security, minimum estimated, profit, gift, severance, value added, disability, premium, recapture, credit, occupation, service, leasing, employment,

stamp and other taxes, and shall include interest, penalties or additions attributable thereto or attributable to any failure to comply with any requirement regarding Tax Returns.

"Tax Audit" shall mean any deficiency, proposed adjustment, adjustment, assessment audit, examination or other administrative or court proceeding, suit, dispute or other claim.

"Tax Return" shall mean any return, declaration, report, claim for refund, or information return or statement relating to Taxes, including any such document prepared on a consolidated, combined or unitary basis and also including any schedule or attachment thereto, and including any amendment thereof.

"Title IV Plan" shall mean a Plan that is subject to Section 302 or Title IV of ERISA or Section 412 of the Code.

"Transactions" shall mean all the transactions provided for or contemplated by this Agreement.

"Transfer Taxes" shall mean all sales (including, without limitation, bulk sales), use, transfer, recording, *ad valorem*, privilege, documentary, gains, gross receipts, registration, conveyance, excise, license, stamp, duties or similar Taxes and fees.

"Warrant" shall have the meaning set forth in Section 2.5(a).

Section 1.2 Interpretation.

(a) Whenever the words "include," "includes" or "including" are used in this Agreement they shall be deemed to be followed by the words "without limitation."

(b) The words "hereof," "herein" and "herewith" and words of similar import shall, unless otherwise stated, be construed to refer to this Agreement as a whole and not to any particular provision of this Agreement, and article, section, paragraph, exhibit and schedule references are to the articles, sections, paragraphs, exhibits and schedules of this Agreement unless otherwise specified.

(c) The meaning assigned to each term defined herein shall be equally applicable to both the singular and plural forms of such term, and words denoting any gender shall include all genders. Where a word or phrase is defined herein, each of its other grammatical forms has a corresponding meaning.

(d) A reference to any party to this Agreement or any other agreement or document shall include such party's successors and permitted assigns.

(e) A reference to any legislation or to any provision of any legislation shall include any amendment to, and any modification or re-enactment thereof, any legislative provision substituted therefore and all regulations and statutory instruments issued thereunder or pursuant thereto.

(f) As used in this Agreement, any reference to any event, change or effect being material or having a material adverse effect on or with respect to any entity (or group of entities taken as a whole) means such event, change or effect is materially adverse to (i) the prospects, consolidated financial condition, businesses or results of operations of such entity as a whole (or, if used with respect thereto, of

such group of entities taken as a whole) or (ii) the ability of such entity (or group) to consummate the Transactions.

(g) The parties have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the parties, and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any provisions of this Agreement.

ARTICLE II- PURCHASE AND SALE OF ASSETS

Section 2.1 Sale and Transfer of Assets.

(a) On the terms set forth in this Agreement, at the Closing, Seller shall sell, convey, assign, transfer and deliver to Purchaser, and Purchaser shall purchase, acquire and accept from Seller, free and clear of any Encumbrances, all right, title and interest in and to the assets, properties and rights of the Business as those assets exist on Closing, other than the Retained Assets, as that term is defined in Section 2.2, (collectively, the "Acquired Assets"), including, without limitation, the following:

(i) the assets set forth on Section 2.1(a)(i) of the Disclosure Schedule;

(ii) all of Seller's rights and benefits under those contracts, purchase orders, leases, proposals or bids relating to the Business identified in Section 2.1(a)(ii) of the Disclosure Schedule (the "Assumed Contracts");

(iii) all of Seller's books, files and records relating to the Business, the Acquired Assets or Assumed Liabilities, except for certain books and records described on Section 2.1(a)(iii) of the Disclosure Schedule;

(iv) all personal computers and software related to or used in connection with the Acquired Assets or Business;

(v) all inventory, supplies, and other consumables related to or used in connection with the Acquired Assets or Business (the "Inventory");

(vi) all Permits used or held for use in connection with the Acquired Assets or Business, solely to the extent such Permits may be assigned or transferred;

(vii) all Accounts Receivable of the Business;

(viii) all rights under the Real Property Lease and any other real property used or held for use by the Seller or in connection with the Business, together with (i) all buildings, other facilities and other structures and improvements related thereto, (ii) all rights, privileges, hereditaments and appurtenances appertaining thereto or to any of such buildings or other facilities or other structures or improvements, and (iii) all fixtures, leasehold improvements, installations, equipment (including furniture, fax machines and other office equipment) and other property attached thereto or located thereon;

(ix) all prepayments, deposits or advances related to Assumed Contracts;

(x) all equipment, machinery, vehicles, tools, equipment replacement and spare parts and supplies owned by Seller and used or held for use in connection with the Acquired Assets or Business;

(xi) any advertising or promotional materials related to or used in connection with the Acquired Assets or Business;

(xii) all goodwill related to the Business and Acquired Assets including the name "MedSource Packaging Concepts";

(xiii) all manufacturer's warranties to the extent related to the Acquired Assets or Business and all claims under such warranties;

(xiv) all prepaid expenses of the Business;

(xv) all promissory notes or notes receivable in favor of the Business;

(xvi) all security deposits, earnest deposits, and all other forms of security placed with Seller related to or in connection with the Acquired Assets or Business for the performance of a contract or agreement;

(xvii) all of Seller's other tangible and intangible assets and properties which are used in connection with the Business; and

(xviii) all right, title and interest in and to the Intellectual Property of Seller used in connection with the Business or the Acquired Assets including all of the Trade names and Trademarks listed on Schedule 2.1(a)(xviii).

To the extent any Acquired Assets are owned, managed or leased by any subsidiary of Seller, (i) such items are included within the term "Acquired Assets," (ii) such subsidiary is deemed to be included within the term "Seller," and (iii) Seller shall cause each such subsidiary, at the Closing, to convey such Acquired Assets to Purchaser, or to Seller for conveyance to Purchaser, in accordance with the provisions hereof.

Section 2.2 Retained Assets. Notwithstanding Section 2.1, all of Seller's right, title and interest in the following properties, assets and rights shall be excluded from the Acquired Assets (collectively, the "Retained Assets"):

(i) the assets set forth in Section 2.2 of the Disclosure Schedule;

(ii) any assets and associated claims arising out of Retained Assets or Retained Liabilities;

(iii) all contracts between Seller and a third party in which the third party or Seller is in material default or breach or is the subject of bankruptcy, insolvency, or similar proceedings;

(iv) any asset, offset, refund, insurance proceeds, receipts and other benefits related to litigation for which Seller is retaining the liability related to such litigation;

(v) all Tax refunds;

(vi) all cash and cash equivalents of Seller; and

(vii) the record books of Seller.

Section 2.3 Assumption of Liabilities.

(a) At the Closing, Purchaser shall assume the following Liabilities of the Business (collectively, the "Assumed Liabilities"):

(i) all Liabilities set forth on Section 2.3 of the Disclosure Schedules;

(ii) all obligations under the Assumed Contracts to be performed subsequent to the Closing Date; and

(iii) all obligations under the Real Property Lease to be performed subsequent to the Closing Date.

(b) Nothing contained in this Section 2.3 or in any instrument of assumption executed by Purchaser at the Closing shall release or relieve Seller or the Members from their representations, warranties, covenants and agreements contained in this Agreement or any certificate, schedule, instrument, agreement or document executed pursuant hereto or in connection herewith, including, without limitation, Seller's and the Members' indemnification obligations in accordance with the provisions of Article IX hereto.

Section 2.4 Retained Liabilities. Notwithstanding anything in this Agreement to the contrary, Purchaser shall not assume, and shall be deemed not to have assumed, any Liabilities of Seller or the Business except as provided in Section 2.3(a), and Seller shall be solely and exclusively liable with respect to, and shall pay, perform or discharge, and indemnify Purchaser against any loss, liability, damage or expense arising from all Liabilities of Seller and the Business to the extent such Liability would be considered a Retained Liability under this Section 2.4, whether disclosed or undisclosed, whether known or unknown, whether asserted or unasserted, other than the Assumed Liabilities (collectively, the "Retained Liabilities"), including, without limitation, those Liabilities set forth below:

(i) all Liabilities relating to the Retained Assets;

(ii) all Liabilities that Seller has expressly agreed to retain, pay for or be responsible for pursuant to this Agreement;

(iii) all Liabilities of the Business arising out of the conduct of the Business on or prior to Closing, including, without limitation, all warranty, replacement or other claims with

respect to Products or Inventory held by Seller or in process of being shipped as of the Closing Date, unless otherwise expressly set forth herein;

(iv) all Liabilities of the Business under Environmental Laws arising from activities occurring on or prior to the Closing;

(v) all Liabilities of the Business for Taxes attributable to any period (or portion thereof) ending on or prior to Closing, including all Taxes arising out of the Business or the Acquired Assets, including any ad valorem, real or personal or intangible property, sales, personal, social security or other Taxes which are not due or assessed until after Closing but which are attributable to any period (or portion thereof) ending on or prior to Closing;

(vi) all Liabilities of the Business to the current or former employees of the Business or their family members relating to or arising out of any period on or prior to the Closing (including, without limitation, all Liabilities under or with respect to Plans, and all Liabilities with respect to vacation or sick or comp pay or benefits);

(vii) all Liabilities of Seller arising out of or related to any Encumbrances on any Acquired Asset;

(viii) all Liabilities for death, personal injury, other injury to Persons or property damage relating to, resulting from, caused by or arising out of, directly or indirectly, use of or exposure to Acquired Assets or Products (or any part or component) designed, manufactured, serviced, leased or sold, or services performed, by the Seller or Business, including, without limitation, any such Liabilities based on negligence, strict liability, design or manufacturing Defect, conspiracy, failure to warn, or breach of express or implied warranties of merchantability or fitness for any purpose or use or allegations concerning any of the foregoing related to events or activities occurring on or prior to the Closing Date;

(ix) all Liabilities arising from contracts related to the Business entered into by Seller which, for whatever reason, are not assignable to Purchaser as listed on Section 2.4(a)(ix) of the Disclosure Schedule;

(x) all Liabilities arising out of or relating to the Business or Acquired Assets or Products of the Business and arising from events or circumstances occurring on or prior to the Closing (or any part or component) or services which are performed by the Business which constitute, may constitute, or are alleged to constitute a tort, breach of contract or violation of, or noncompliance with any Applicable Law, including, without limitation, relating to employment, workers' compensation, occupational health and safety, occupational disease, occupational injury, toxic tort or Environmental Law;

(xi) any retrospective premiums, reinsurance payments, payments under reimbursement contracts or other adjustments under any insurance policy maintained for the benefit of the Business or its respective predecessors covering any Liability that is a Retained Liability;

(xii) all Liabilities of Seller under any guaranties issued, granted or provided in connection with the Business for activities, sales or services performed on or prior to the Closing Date;

(xiii) all tort claims or other claims of any kind or nature related to the Products sold by Seller on or prior to the Closing Date; and

(xiv) all other Liabilities to the extent relating to or arising out of the operations or businesses of Seller other than the Assumed Liabilities.

Section 2.5 Purchase Price; Warrant; Escrow Agreement.

(a) Subject to the terms of this Agreement, in consideration of the aforesaid assumption of the Assumed Liabilities and the sale, conveyance, assignment, transfer and delivery to Purchaser of the Acquired Assets, at the Closing, Purchaser shall (i) pay on behalf of Seller those certain liabilities of Seller set forth on Exhibit A attached hereto (such liabilities are collectively referred to as the "Payoff Consideration") according to the payment instructions set forth on such exhibit, and (ii) deliver seven separate warrants to purchase an aggregate of 100,000 shares of common stock of the Purchaser, in a form substantially similar to that set forth as Exhibit B attached hereto (the "Warrant," and collectively with the Payoff Consideration, the "Purchase Price") to the Escrow Agent (as such term is defined in the Escrow Agreement). The exercise price of the shares issuable upon exercise of the Warrant shall be equal to the average closing price of Purchaser's common stock as reported by the Nasdaq stock market for the ten trading days immediately preceding the Closing Date.

(b) On the Closing Date, the Warrant shall be placed in escrow, and be subject to the terms of that certain Escrow Agreement, a form of which is attached hereto as Exhibit C, in addition to the terms of this Agreement. The Warrant shall remain in escrow for a period of 12 months from the Closing Date and shall be a source of recovery for the Purchaser against any Purchaser Losses. In the event of each and any Purchaser Losses, Seller and Member Representative, on behalf of the Members, may elect, within 15 days from the initial notice related thereto by Purchaser to Seller according to the Escrow Agreement, either of the following methods to repay such Purchaser Losses: (i) to have the number of shares issuable upon exercise of the Warrant reduced by the amount of any Purchaser Losses, according to the following formula: (A) each amount of Purchaser Losses shall be divided by the amount by which each share issuable upon exercise of the Warrant exceeds the exercise price thereof (if any) on the date when any amount of Purchaser Losses is established, and (B) the quotient determined according to (A) above shall be the number of shares issuable under the Warrant that are canceled as of such date; or (ii) Seller, Member Representative or any of the Members, as determined among themselves, may pay to Purchaser the amount of such Purchaser Losses in cash. If Purchaser has not received such amount in cash according to (ii) above within 15 days of the initial notice by Purchaser to Seller according to the Escrow Agreement, Seller and the Member Representative, on behalf of the Members, shall conclusively be deemed to have accepted the reduction in shares issuable under the Warrant as set forth in (i) above. Upon each event resulting in a reduction in the number of shares exercisable upon issuance of the Warrant, the Warrant shall be canceled and Purchaser shall deliver a new warrant, containing terms identical to the Warrant other than the reduction in the number of shares issuable upon exercise according to this Section 2.5(b), to the Escrow Agent.

(c) In the event that the shares issuable upon exercise of the Warrant, according to the terms of this Agreement and the Warrant, become exercisable during the term in which the Warrant is subject to the Escrow Agreement, then Seller and the Member Representative, on behalf of the Members, may elect to (i) choose to exercise all or a part of the Warrant (according to the terms of the Warrant) and receive the shares issuable upon such exercise, and (ii) if a registration statement with respect to such shares filed with the Securities and Exchange Commission has been declared effective, sell such shares according to all applicable laws, rules and regulations. Notwithstanding the foregoing, each of Seller, the Member Representative and the Members acknowledge and agree that all such shares issued upon exercise of the Warrant, and all such proceeds received upon sale of any such shares, shall be made payable to the Escrow Agent and subject to the Escrow Agreement in the same manner that the Warrant was held in the Escrow Agreement.

Section 2.6 Allocation of Purchase Price; Tax Filings. Purchaser and Seller shall allocate the Purchase Price plus Assumed Liabilities among the Acquired Assets in the manner to be determined by Purchaser in the exercise of its reasonable discretion. Each of Purchaser and Seller shall (i) timely file all forms (including Internal Revenue Service Form 8594) and Tax Returns required to be filed in connection with such allocation, (ii) be bound by such allocation for purposes of determining Taxes, (iii) prepare and file, and cause its Affiliates to prepare and file, its Tax Returns on a basis consistent with such allocation, and (iv) take no position, and cause its Affiliates to take no position, inconsistent with such allocation on any applicable Tax Return, in any audit or proceeding before any taxing authority, in any report made for Tax, financial accounting or any other purposes, or otherwise. In the event that such allocation is disputed by any taxing authority, the party receiving notice of such dispute shall promptly notify the other party hereto concerning the existence and resolution of such dispute.

ARTICLE III- THE CLOSING

Section 3.1 The Closing. Upon the terms of this Agreement, the consummation of the transactions contemplated by this Agreement (the "Closing") shall take place on the date of execution of this Agreement, unless another date or place is agreed in writing by each of the parties hereto. The Closing shall occur at the offices of Parr Waddoups, Brown, Gee & Loveless at 10:00 a.m. local time, or at such other place or time as the parties shall agree.

Section 3.2 Deliveries by Seller. At the Closing, Seller shall deliver or cause to be delivered to Purchaser (unless previously delivered), the following:

(a) duly executed Bills of Sale for the personal property in customary form reasonably acceptable to Purchaser;

(b) duly executed Assignment of Contracts for the Assumed Contracts in customary form reasonably acceptable to the Purchaser;

(c) all documents of title and instruments of conveyance necessary to transfer record and/or beneficial ownership to Purchaser of all vehicles and any other property owned by Seller which are included in the Acquired Assets as part of the Business and which require execution, endorsement and/or delivery of a document in order to vest record or beneficial ownership thereof in Purchaser;

(d) assignments of all Intellectual Property which is listed in Section 3.2(e) of the Disclosure Schedule as owned by Seller for the benefit of the Business;

(e) assignment of the Real Property Lease;

(f) executed copies of the Required Consents referred to in Section 4.5 hereof;

(g) all documents containing or relating to "know-how" to be acquired by Purchaser pursuant hereto;

(h) all of the books and records of Seller relating to the Business, except as otherwise required by law and except as are set forth in Section 2.1(a)(iii) of the Disclosure Schedule;

(i) a certification of non-foreign status for Seller in the form and manner which complies with the requirements of Section 1445 of the Code and the regulations promulgated thereunder;

(j) all Permits referred to in Article 2.1(a)(vi) hereof;

(k) any other certifications from Seller or any of its Affiliates which may be required under Applicable Law necessary to establish that no Taxes are due to any taxing authority for which the Purchaser could have liability to withhold and pay with respect to the transfer of the Business;

(l) all such other deeds, endorsements, assignments and other instruments as, in the reasonable opinion of Purchaser's counsel, are necessary to vest in Purchaser good and marketable title to the Acquired Assets;

(m) all other previously undelivered documents required to be delivered by Seller to Purchaser at or prior to the Closing in connection with the Transactions; and

(n) the opinion of counsel referred to in Section 7.2(b) hereof.

Section 3.3 Deliveries by Purchaser. At the Closing, Purchaser shall deliver or cause to be delivered to Seller (unless previously delivered), the following:

(a) evidence of payment in full of each item of the Payoff Consideration;;

(b) executed copy of the Warrant;

(c) executed copies of any assumption or assignment document related to the Assumed Liabilities that Purchaser is required (in its reasonable judgment) to execute ; and

(d) such other documents as are required to be delivered by Purchaser to Seller pursuant to this Agreement.

ARTICLE IV- REPRESENTATIONS AND WARRANTIES OF THE SELLER AND MEMBERS

Except as specifically set forth in the Disclosure Schedule prepared and signed by Seller and Members and delivered to Purchaser simultaneously with the execution hereof, Seller and Members, jointly and severally, represent and warrant to Purchaser that all of the statements contained in this Article IV are true and complete as of the date hereof. Each exception set forth in the Disclosure Schedule and each other response to this Agreement set forth in the Disclosure Schedule is identified by reference to, or has been grouped under a heading referring to, a specific individual section of this Agreement and, except as otherwise specifically stated with respect to such exception, relates only to such section. In the event of any inconsistency between statements in the body of this Agreement and statements in the Disclosure Schedule (excluding exceptions expressly set forth in the Disclosure Schedule with respect to a specifically identified representation or warranty), the statements in the body of this Agreement shall control.

Section 4.1 Authorization. Seller has full power and authority to execute and deliver this Agreement and to consummate the Transactions. The execution, delivery and performance by Seller of this Agreement and the consummation by it of the Transactions have been duly authorized and unanimously consented to by Seller's manager(s), if any, and the Members, and no other member action on the part of Seller is necessary to authorize the execution and delivery by Seller of this Agreement or the consummation by it of the Transactions.

Section 4.2 Binding Agreement. This Agreement has been duly executed and delivered by Seller, Members and, assuming due and valid authorization, execution and delivery thereof by Purchaser, this Agreement is a valid and binding obligation of Seller and Members enforceable against such persons in accordance with its terms, except (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws of general application affecting enforcement of creditors' rights generally, and (ii) the availability of the remedy of specific performance or injunctive or other forms of equitable relief may be subject to equitable defenses and would be subject to the discretion of the court before which any proceeding therefore may be brought.

Section 4.3 Organization; Qualification of Seller. Seller (i) is a limited liability company organized, validly existing and in good standing under the laws of the Commonwealth of Virginia; (ii) has full power and authority to carry on the Business as it is now being conducted and to own the Business; and (iii) is duly qualified or licensed to do business as a foreign entity in good standing in every jurisdiction in which the conduct of the Business requires such qualification or, if not so qualified in any such jurisdiction, it can become so qualified in such jurisdiction without any material adverse effect

(including assessment of state taxes for prior years) upon its business and properties. Seller has heretofore made available to Purchaser complete and correct copies of the certificate or articles of organization and operating agreement of Seller as presently in effect or other organizational documents.

Section 4.4 Subsidiaries and Affiliates. Section 4.4 of the Disclosure Schedule sets forth the jurisdictions in which Seller is qualified to do business, the authorized and outstanding capital of Seller, along with the membership interest owned by each Member.

Section 4.5 Required Consents and Approvals; No Violations. Except as set forth on Section 4.5 of the Disclosure Schedule none of the execution, delivery or performance of this Agreement by Seller or any Member, the consummation by Seller of the Transactions or compliance by Seller or any Member with any of the provisions hereof will (i) conflict with or result in any breach of any provision of

the certificate or articles of organization, operating agreement or similar organizational documents of Seller, (ii) require any filing with, or permit, authorization, consent or approval of, any Governmental Entity or other Person (including, without limitation, consents from parties to loans, contracts, leases and other agreements to which any of Seller or a Member is a party), (iii) require any consent, approval or notice under, or result in a violation or breach of, or constitute (with or without due notice or the passage of time or both) a default (or give rise to any right of termination, amendment, cancellation or acceleration) under, any of the terms, conditions or provisions of any contract, agreement, arrangement or understanding to which Seller or any Member is a party or by which the Business or Acquired Assets are bound, or (iv) violate any order, writ, injunction, decree, statute, rule or regulation applicable to Seller, the Business, the Acquired Assets, or any of their properties or assets.

Section 4.6 Financial Statements. True and complete copies of the Financial Statements, together with the related auditors reports (if applicable), are included in Section 4.6 of the Disclosure Schedule. The Financial Statements have been prepared from, are in accordance with and accurately reflect, the books and records of Seller, comply in all material respects with applicable accounting requirements and income tax filing requirements, have been prepared on a consistent basis during the periods involved (except as may be stated in the notes thereto) and fairly present the financial position and the results of operations and cash flows (and changes in financial position, if any) of Seller and the Business as of the times and for the periods referred to therein (subject, in the case of unaudited statements, to normally recurring year-end audit adjustments which are not material either individually or in the aggregate).

Section 4.7 Books and Records. Seller's books of account and other records relating to the Business are complete and correct in all material respects and have been maintained in accordance with sound business practices.

Section 4.8 Liabilities. Seller has sufficient assets (including without limitation the Retained Assets) apart from the Acquired Assets to satisfy all liabilities of Seller that are not being assumed or paid off by Purchaser pursuant to this Agreement (including without limitation the Retained Liabilities). Seller and Members represent and warrant that the assets of Seller not being sold to Purchaser will be used by Seller and Members to satisfy all liabilities of the Seller that are not being assumed by Purchaser in this Agreement or satisfied by the Payoff Consideration. Except as disclosed in the Financial Statements and as set forth in Section 4.8 of the Disclosure Schedule, the Business has no liability or obligation of any nature, (including, without limitation, any direct or indirect indebtedness, guaranty, endorsement, claim, loss, damage, deficiency, cost, expense, obligation or responsibility, fixed or unfixed, known or unknown, asserted or unasserted, liquidated or unliquidated, secured or unsecured) that has, or would be reasonably likely to have, a Material Adverse Effect. The liabilities to be paid by Purchaser as part of the Purchase Price are all of the liabilities of Seller and there are no other liabilities of Seller. Upon Purchaser paying the Purchase Price, by Purchaser waiving the requirements of Virginia's "Bulk Sales" statute, no party will have any claim against the Acquired Assets or against Purchaser for failure to comply with Virginia's Bulk Sales statute and Seller and the Members, jointly and severally, will indemnify and hold Purchaser harmless against all such liability, loss, cost or expense.

Section 4.9 Accounts Receivable. All Accounts Receivable of the Business represent sales actually made in the ordinary course of business. Each of the Accounts Receivable to be included in the Acquired Assets will be collected in full, within 90 days from the Closing Date.

Section 4.10 Material Contracts.

(a) Section 4.10(a) of the Disclosure Schedule sets forth the following, including any legally binding oral agreements or arrangements covered by the following:

(i) each agreement that materially or adversely affects or materially restricts the freedom of Seller to compete in its lines of business or with any Person or in any geographical area, for any length of time, or otherwise to conduct its business as presently conducted or materially and adversely affect or materially restrict, the business, operations, assets, properties or condition (financial or other) of the Business as currently conducted;

(ii) each of Seller's collective bargaining or union contract or agreement and each employment or severance contract or agreement which constitutes a part of the Acquired Assets related to an employee of the Business;

(iii) each contract or agreement for the receipt of maintenance, consulting or other services which constitutes a part of the Acquired Assets, except those contracts or agreements terminable without penalty on 30 or fewer days' notice or those involving the receipt or payment of less than $5,000;

(iv) each contract or agreement for the purchase of equipment, materials or supplies which constitutes a part of the Acquired Assets, except those contracts or agreements terminable without penalty on 30 or fewer days' notice or those involving the receipt or payment of less than $5,000;

(v) each contract or agreement with any employee or third party which constitutes a part of the Acquired Assets which is not terminable without penalty on 30 or fewer days' notice;

(vi) other than this Agreement, each agreement for the acquisition or disposition of Acquired Assets in an amount of $5,000 or more;

(vii) all leases and loans, capitalized or other, for Acquired Assets which are leased, or owned, by Seller and which are not Retained Liabilities;

(viii) each indemnification agreement entered into by Seller in the last two years from the date hereof which constitutes a part of the Acquired Assets and each such agreement entered into prior thereto if Seller has any continuing obligations to perform services thereunder;

(ix) each agreement which involves the receipt or payment of more than $5,000 which constitutes a part of the Acquired Assets and (1) is not terminable without Liability, penalty or premium (whether imposed by contract, law, regulation or otherwise) on 30 or fewer days' notice or (2) has an unexpired term of over one year;

(x) each agreement, warranty, contract, or lease involving more than $5,000 relating to any of the Acquired Assets; and

(xi) each Assumed Contract.

(b) Seller has made available to Purchaser true, correct and complete copies of all agreements set forth in Section 4.10(a) of the Disclosure Schedule (the "Material Contracts").

(c) Except as set forth in Section 4.10(c) of the Disclosure Schedule, each Material Contract is in full force and effect, has not been modified or amended and constitutes the legal, valid and binding obligation of Seller, as the case may be, as a party thereto, in accordance with the terms of such agreement. To the Knowledge of Seller, each Material Contract is a legal, valid and binding obligation of the other party or parties to such Material Contract. In the past twelve months, Seller has not given or received a notice of default under (whether oral or written) or had any material dispute with respect to any Material Contract.

Section 4.11 Absence of Certain Changes. Except as set forth in Section 4.11 of the Disclosure Schedule, since December 31, 2003, the Business has been conducted only in the ordinary and usual course consistent with past practice, and neither Seller (with respect to the Acquired Assets) nor the Business has or could reasonably be expected to have:

(a) suffered any Material Adverse Effect;

(b) except as set forth in Section 4.11(b) of the Disclosure Schedule, incurred any liability or obligation (absolute, accrued, contingent or otherwise) except items incurred in the ordinary course of business and consistent with past practice, none of which exceeds $5,000 (counting obligations or liabilities arising from one transaction or a series of similar transactions, and all periodic installments or payments under any lease or other agreement providing for periodic installments or payments, as a single obligation or liability), or increased, or experienced any change in any assumptions underlying or methods of calculating, any bad debt, contingency or other reserves;

(c) except as set forth in Section 4.11(c) of the Disclosure Schedule, paid, discharged or satisfied any claim, liability or obligation (whether absolute, accrued, contingent or otherwise) other than the payment, discharge or satisfaction in the ordinary course of business and consistent with past practice of liabilities and obligations reflected or reserved against in Seller's latest balance sheet or incurred in the ordinary course of business and consistent with past practice since the date of such balance sheet;

(d) permitted or allowed any of its property or assets (real, personal or mixed, tangible or intangible) to be subjected to any mortgage, pledge, lien, security interest, encumbrance, restriction or charge of any kind, except for liens for current taxes not yet due, except as set forth in Section 4.11(d) of the Disclosure Schedule;

(e) except as set forth in Section 4.11(e) of the Disclosure Schedule, written down the value of any inventory or written off as uncollectible any notes or accounts receivable, except for immaterial write-downs and write-offs in the ordinary course of business and consistent with past practice;

(f) except as set forth in Section 4.11(f) of the Disclosure Schedule, cancelled any debts or waived any claims or rights of substantial value;

(g) sold, transferred, or otherwise disposed of any of its properties or assets (real, personal or mixed, tangible or intangible), except in the ordinary course of business and consistent with past practice;

(h) except as set forth in Section 4.11(h) of the Disclosure Schedule, disposed of or permitted to lapse any rights to the use of any Intellectual Property, or disposed of or disclosed to any Person other than representatives of Purchaser any trade secret, formula, process, know-how or other Intellectual Property not theretofore a matter of public knowledge;

(i) except as set forth in Section 4.11(i) of the Disclosure Schedule, granted any general increase in the compensation of employees of the Business (including any such increase pursuant to any bonus, pension, profit-sharing or other plan or commitment) or any other increase in the compensation payable or to become payable to any employee of the Business, and no such increase is customary on a periodic basis or required by agreement or understanding;

(j) except as set forth in Section 4.11(j) of the Disclosure Schedule, made any single capital expenditure or commitment in excess of $5,000 for additions to property, plant, equipment or intangible capital assets or made aggregate capital expenditures and commitments in excess of $10,000 (on a Business-wide basis) for additions to property, plant, equipment or intangible capital assets;

(k) declared, paid or set aside for payment any dividend or other distribution in respect of its units or membership interests;

(l) made any change in any method of accounting or accounting practice; or

(m) paid, loaned or advanced any amount to, or sold, transferred or leased any properties or assets (real, personal or mixed, tangible or intangible) to, or entered into any agreement or arrangement with, any of its Members or managers or any Affiliate or Associate of any of its Members or managers except for compensation to employees at rates not exceeding the rates of such fees and compensation paid during the year ended December 31, 2003.

Section 4.12 Title to Assets; Encumbrances. Seller has good, valid and marketable title to all the Acquired Assets that it purports to own (tangible and intangible) free and clear of all Encumbrances. Upon closing the transactions as contemplated in this Agreement, Purchaser will own the Acquired Assets free and clear of all Encumbrances. The rights, properties and other assets to be conveyed to Purchaser pursuant hereto include all rights, properties and other assets used by Seller to conduct the Business or necessary to permit Purchaser to conduct the Business after the Closing in all material respects in the same manner as such business has been conducted by Seller prior to the date hereof.

Section 4.13 Real Property.

(a) Seller owns no real property. Section 4.13(a) of the Disclosure Schedule sets forth the location of the leased Real Property, and includes a status report therefore. To the knowledge of the Seller, there are no proceedings, claims, disputes or conditions affecting the Real Property that might curtail or interfere with the use of such property. To the knowledge of the Seller, neither the whole nor any portion of the Real Property nor any other Acquired Asset is subject to any governmental decree or order to be sold or is being condemned, expropriated or otherwise taken by any public authority, nor to the Knowledge of Seller has any such condemnation, expropriation or taking been proposed. Seller is not a party to any lease, assignment or similar arrangement under which any Seller or Member is a lessor, assignor or otherwise makes available for use by any third party any portion of the Real Property.

(b) Seller has not received any notice of, or other writing referring to, any requirements or recommendations by any insurance company that has issued a policy covering any part of the leased Real Property or related property or by any board of fire underwriters or other body exercising similar functions, requiring or recommending any repairs or work to be done on any part of the Real Property, which repair or work has not been completed.

(c) Seller has obtained all appropriate certificates of occupancy, licenses, easements and rights of way, required to use and operate the Real Property in the manner in which the Real Property is currently being used and operated by Seller. True and complete copies of all such certificates, permits and licenses to the extent they are in the possession of Seller have heretofore been furnished to Purchaser. Seller (with respect to the Business) has all approvals, permits and licenses (including any and all environmental permits) necessary to operate the Real Property as currently operated, and no such approvals, permits or licenses will be required, as a result of the Transactions, to be issued after the date hereof in order to permit Purchaser and the Business, following the Closing, to continue to operate the Real Property in the same manner as heretofore, other than any such approvals, permits and licenses that are ministerial in nature and are normally issued in due course upon application therefore without further action by the applicant.

(d) Except as set forth in Section 4.13(e) of the Disclosure Schedule, there are no material, unusual matters which could delay, prevent, prohibit, impair or materially limit the currently intended use or occupancy of the Real Property.

Section 4.14 Leases.

(a) Section 4.14(a) of the Disclosure Schedule contains an accurate and complete description of the terms of the Real Property Leases. A true and complete copy of each lease has been delivered to Purchaser. The Real Property Leases are valid, binding and enforceable upon Seller, and to the Knowledge of Seller, upon the other party thereto in accordance with their terms and are in full force and effect. To the Knowledge of Seller, the leasehold estate created by each of the Real Property Leases is free and clear of all Encumbrances. Except for the failure to pay rent, the exact amount of such rent that is owed as of the date hereof is set forth on Section 4.14(a) of the Disclosure Schedule and is a part of the Payoff Consideration and is accrued and identified on Seller's financial statements, there are no existing defaults by Seller under either of the Real Property Leases. No event has occurred that (whether with or without notice, lapse of time or the happening or occurrence of any other event) would constitute a default under the Real Property Leases. Seller has no reason to believe that the lessor under either of the Real Property Leases will not consent (where such consent is necessary) to the consummation of the Transactions without requiring any modification of the rights or obligations of the lessee thereunder.

(b) Section 4.14(b) of the Disclosure Schedule contains an accurate and complete description of the terms of each Lease. True and complete copies of each such lease has been delivered to Purchaser. Each Lease is valid, binding and enforceable upon Seller, and to the Knowledge of Seller, upon the other party thereto in accordance with its terms and is in full force and effect. To the Knowledge of Seller, the leasehold estate created by each Lease is free and clear of all Encumbrances. There are no existing defaults by Seller under any Lease. No event has occurred that (whether with or without notice, lapse of time or the happening or occurrence of any other event) would constitute a default under any Lease. Seller has no reason to believe that the lessor under any Lease will not consent (where such consent is

necessary) to the consummation of the Transactions without requiring any modification of the rights or obligations of the lessee thereunder.

Section 4.15 Condition of Assets.

(a) Except as set forth in Section 4.15(a) of the Disclosure Schedule, none of the Acquired Assets have any Defects and all Acquired Assets are in good operating condition and repair and are adequate and fit for the uses to which they are being put. Other than the Acquired Assets, no item of property or other asset is necessary for the operations and business of the Business or of Seller as conducted as of the Closing Date. To the Knowledge of Seller, none of the Acquired Assets is in need of maintenance or repairs except for ordinary, routine maintenance and repairs that are not material in nature or cost. Seller has not received notification that it is in violation of any applicable building, zoning, health or other law, ordinance or regulation in respect of the Acquired Assets.

(b) Except as set forth on Section 4.15(b) of the Disclosure Schedule, all raw material, work-in-process and finished goods inventory of Seller (i) is of a quantity and quality usable or salable in the ordinary course of business except for obsolete inventory which has been written down on Seller's June 30, 2004 balance sheet to its net realizable value, and (ii) is reflected on the Financial Statements at the lower of cost or market, and all such inventory shown on the Financial Statements has been acquired by Seller for value.

Section 4.16 Environmental Matters.

(a) Seller is in material compliance with all Environmental Laws. Such compliance includes, but is not limited to, Seller's possession of all permits and other governmental authorizations required under all applicable Environmental Laws, and compliance with the terms and conditions thereof. Each permit and other governmental authorization currently held by Seller (pursuant to the Environmental Laws) is specifically identified in Section 4.16(a) of the Disclosure Schedule.

(b) Except as set forth in Section 4.16(b) of the Disclosure Schedule, Seller has not received any communication (written or oral), whether from a Governmental Entity, citizens group, employee or otherwise, that alleges that Seller is not in full compliance with all Environmental Laws. Seller has delivered to Purchaser prior to the execution of this Agreement all information that is in the possession of or reasonably available to Seller regarding environmental matters pertaining to, or the environmental condition of, Seller or the compliance (or non-compliance) by the Business with any Environmental Laws.

(c) There is no Environmental Claim by any Person that is pending or threatened against the Seller, the Business or the Acquired Assets, or against any Person whose liability for any Environmental Claim Seller has retained or assumed either contractually or by operation of law.

(d) Except as set forth in Section 4.16(d) of the Disclosure Schedule, there are no past or present actions, activities, circumstances, conditions, events or incidents, including the release, emission, discharge, presence or disposal of any Materials of Environmental Concern, that could form the basis of any Environmental Claim against Seller, the Business or the Acquired Assets, or, to the Knowledge of Seller, against any Person whose liability for any Environmental Claim Seller has retained or assumed either contractually or by operation of law.

(e) Without in any way limiting the generality of the foregoing, (i) all on-site and off-site locations where Seller or the Business has (previously or currently) stored, disposed or arranged for the disposal of Materials of Environmental Concern are specifically identified in Section 4.16(e) of the Disclosure Schedule, (ii) all underground storage tanks, and the capacity and contents of such tanks, located on any property owned, leased, operated or controlled by Seller for the use or benefit of the Business are specifically identified in Section 4.16(e) of the Disclosure Schedule, (iii) to the Knowledge of Seller there is no asbestos contained in or forming part of any building, building component, structure or office space owned, operated or controlled by the Business and (iv) to the Knowledge of Seller no PCBs or PCB-containing items are used or stored at any property owned, operated or controlled by Seller for the benefit of the Business.

(f) Seller has provided to Purchaser a copy of each assessment, report, datum, result of investigations or audit, and other information that is in the possession of or reasonably available to Seller regarding environmental matters pertaining to or the environmental condition of the Business or the Acquired Assets, or the compliance (or noncompliance) by Seller, the Business or the Acquired Assets with any Environmental Laws.

(g) Except as set forth in Section 4.16(g) of the Disclosure Schedule, Seller is not, and none of the Acquired Assets are, subject to any Environmental Laws requiring (i) the performance of site assessment for Materials of Environmental Concern, (ii) the removal or remediation of Materials of Environmental Concern, (iii) the giving of notice to, or receiving the approval of, any Governmental Entity or (iv) the recording or delivery to any other Person of any disclosure document or statement pertaining to environmental matters by virtue of the Transactions or as a condition to the effectiveness of any of the Transactions.

Section 4.17 Contracts and Commitments.

(a) Except as set forth in Section 4.17(a) of the Disclosure Schedule, no Person has any agreement, option, understanding or commitments or any right or privilege (whether by law, preemptive or contractual) capable of becoming an agreement, option or commitment, for the purchase or other acquisition from Seller of the Business or any of the Acquired Assets.

(b) The Business has no agreements, contracts, commitments or restrictions that require the making of any charitable contribution.

(c) Except as set forth in Section 4.17(c) of the Disclosure Schedule, no material purchase contracts or commitments of the Business continue for a period of more than 12 months or are in excess of the normal, ordinary and usual requirements of business.

(d) Except as set forth in Section 4.17(d) of the Disclosure Schedule, the Business has no outstanding contracts with managers, employees, agents, consultants, advisors, salesmen, sales representatives, distributors or dealers that are not cancelable by it on notice of not longer than 30 days and without liability, penalty or premium or any agreement or arrangement providing for the payment of any bonus or commission based on sales or earnings.

(e) Except as set forth in Section 4.17(e) of the Disclosure Schedule, the Business has no employment agreement, or any other agreement that contains any severance or termination pay liabilities or obligations.

(f) Except as set forth in Section 4.17(f) of the Disclosure Schedule, Seller is not (with respect to the Acquired Assets or Business) in material default under or in violation of, nor is there any valid basis for any claim of default under or violation of, any contract, commitment or restriction to which it is a party or by which it is bound which defaults and violations in the aggregate would have a Material Adverse Effect upon the Business.

(g) Set forth in Section 4.17(g) of the Disclosure Schedule is a list of each employee and their current compensation and benefits.

(h) Except as set forth in Section 4.17(h) of the Disclosure Schedule, Seller (with respect to the Acquired Assets or Business) are not restricted by agreement from carrying on their business anywhere in the world.

(i) Seller has no outstanding agreement to acquire any debt obligations of others.

(j) Except as set forth in Section 4.17(j) of the Disclosure Schedule, none of Seller, the Acquired Assets or the Business has any power of attorney outstanding or any obligations or liabilities (whether absolute, accrued, contingent or otherwise), as guarantor, surety, co-signer, endorser, co-maker, indemnitor or otherwise in respect of the obligation of any Person, corporation, partnership, joint venture, association, organization or other entity.

Section 4.18 Customers and Suppliers. Except as set forth in Section 4.18 of the Disclosure Schedule, there has not been a Material Adverse Effect because of a change in the business relationship of the Business during the period January 1, 2004 through the date hereof with any supplier or vendor from whom the Business purchased more than 5% of the equipment, goods or services (on a consolidated basis) which it purchased during the same period. To the Knowledge of Seller, the consummation of the Transactions will not have a Material Adverse Effect on any vendor, supplier or subcontractor relationship. Set forth on Section 4.18 of the Disclosure Schedule is a list of the ten largest vendors of the Business during the first nine months of 2004.

Section 4.19 Insurance. Section 4.19 of the Disclosure Schedule sets forth (a) a true and complete list and description of all insurance policies, other insurance arrangements and other contracts or arrangements for the transfer or sharing of insurance risks by Seller or the Business or with respect to the Acquired Assets in force on the date hereof with respect to the business or assets of the Business for the last ten years, together with a statement of the aggregate amount of claims paid out, and claims pending, under each such insurance policy or other arrangement through the date hereof and (b) a description of such risks which the Business or the managers or Members of Seller has designated as being self-insured. The Business has policies of insurance issued by an insurer that Seller believes is financially sound and reputable of the type and in amounts Seller believe is customarily carried by Persons conducting businesses or owning assets similar to those of the Business. All such policies are in full force and effect, all premiums due thereon have been paid and the Business is otherwise in compliance in all material respects with the terms and provisions of such policies. Furthermore, (a) the Business has not received any notice of cancellation or non-renewal of any such policy or arrangement nor is the termination of any

such policies or arrangements threatened, (b) there is no claim pending under any of such policies or arrangements as to which coverage has been questioned, denied or disputed by the underwriters of such policies or arrangements, (c) the Business has received no notice from any of its insurance carriers that (i) any insurance premiums will be increased in the future or (ii) that any insurance coverage presently provided for will not be available to the Business in the future on substantially the same terms as now in effect or (iii) any claims have been denied by the insurer and no such notice is expected to be received, and (d) none of such policies or arrangements provides for any retrospective premium adjustment, experienced-based liability or loss sharing arrangement affecting the Business.

Section 4.20 Casualties. Since December 31, 2003, Seller has not been affected in any way as a result of flood, fire, explosion or other casualty that would have a Material Adverse Effect (whether or not material and whether or not covered by insurance). Seller is not aware of any circumstance which is likely to cause it to suffer any material adverse change in its business, operations or prospects, other than general economic conditions and typical industry risks.

Section 4.21 Litigation. Except as set forth in Section 4.21 of the Disclosure Schedule, there is no action, claim, charge, audit, suit, inquiry, proceeding or investigation by or before any Governmental Entity or brought by any third party pending or, to the Knowledge of Seller, threatened against or involving the Business or the Acquired Assets, or which questions or challenges the validity of this Agreement or any action taken or to be taken by Seller pursuant to this Agreement or in connection with the Transactions. To the Knowledge of Seller, there is no basis for any such action, proceeding or investigation. Seller is not subject to any judgment, order or decree which may have a Material Adverse Effect on the Acquired Assets or Seller's ability to acquire any property or conduct the Business.

Section 4.22 Compliance with Laws; Permits and Licenses.

(a) Each of Seller and the Business have complied, in a timely manner and in all material respects with all laws, rules and regulations, ordinances, judgments, decrees, orders, writs and injunctions of all United States federal, state, local, foreign governments and agencies thereof that affect the business, properties or assets of the Business or the Acquired Assets, and to the Knowledge of Seller there are no circumstances that, if not remedied or modified, would prevent or materially interfere with such compliance.

(b) Seller and the Business has in effect and obtained all Permits necessary to conduct the Business as it is presently being conducted in accordance with the ordinances, rules, requirements and regulations of any Governmental Entity having jurisdiction over its properties or activities, and there has occurred no default under any such Permit, and to the Knowledge of Seller there are no Permits or licenses that, if not obtained, would prevent or materially interfere with the conduct of the Business as it is presently being conducted. A list of all Permits necessary to conduct the Business is attached hereto as Section 4.22(b) of the Disclosure Schedule.

(c) Without limiting the foregoing, (i) the operations of the Business do not violate or fail to comply in any material respect with applicable health, fire, safety, zoning or building codes, laws or ordinances, rules or regulations; (ii) Seller has not received any notice not heretofore complied with or in the process of being complied with, from any Governmental Entity having jurisdiction over its properties or activities, or any insurance or inspection body, that its operations or any of its properties, facilities, equipment, or business procedures or practices fail to comply in all material respects with any Applicable

Law, ordinance, regulation, building or zoning law, or requirement of any public authority or body; and (iii) there are no pending or, to the Knowledge of Seller, threatened actions or proceedings by any Governmental Entity alleging violations in any material respect of such codes, laws or ordinances.

Section 4.23 Employee Benefit Plans.

(a) Section 4.23(a) of the Disclosure Schedule contains a true and complete list of all Plans (other than at will employment arrangements that may be terminated at any time without liability). Neither Seller nor any ERISA Affiliate has any commitment or formal plan, whether legally binding or not, to create any additional employee benefit plan or modify or change any existing Plan that would affect any employee or former employee of the Business or Seller.

(b) Seller has heretofore delivered to Purchaser a true and complete copy of each Plan and any amendments thereto (or if a Plan is not a written Plan, a description thereof), each agreement creating or modifying any related trust, insurance contract, or other funding vehicle for such plan, the most recent annual report and summary plan description required under ERISA or the Code and the most recent determination letter (or master prototype opinion letter, if applicable) issued by the Internal Revenue Service with respect to each Plan intended to qualify under Section 401 of the Code.

(c) Except as listed in Section 4.23(c) of the Disclosure Schedule:

(i) All contributions (including all employer contributions and employee salary reduction contributions) that are due have been made within the time periods prescribed by ERISA or the Code to each Plan that is a "pension plan" within the meaning of Section 3(2) of ERISA (a "Pension Plan") and all contributions for any period ending on or before the Closing Date which are not yet due have been made to each such Pension Plan or accrued in accordance with the past custom and practice of Seller. All premiums or other payments for all periods ending on or before the Closing Date have been timely paid with respect to each Plan that is a "welfare plan" within the meaning of Section 3(1) of ERISA.

(ii) Other than a Multiemployer Plan, no Plan that is a Pension Plan has been completely or partially terminated or been the subject of a "reportable event" within the meaning of Section 4043 of ERISA. No proceeding by the PBGC to terminate any such Pension Plan has been instituted or, to the Knowledge of Seller or any Member or manager (or employee with responsibility for employee benefits matters) of Seller, threatened. The market value of assets under each Pension Plan (including any Pension Plan that is a Multiemployer Plan) equals or exceeds the present value of all vested and non-vested liabilities thereunder, as calculated in accordance with the terms of the Plan and the PBGC or other regulatory agency methods, factors, and assumptions applicable to a Pension Plan terminating on the date hereof.

(iii) Neither Seller nor any ERISA Affiliate has incurred, and none of Seller or any Member or manager (or employee with responsibility for employee benefits matters) of Seller has any reason to expect that Seller or any ERISA Affiliate will incur, any Liability (other than for PBGC premiums) to any Person under Title IV of ERISA or under the Code with respect to any Pension Plan, including, without limitation, any "withdrawal liability" within the meaning of

Section 4201 of ERISA or other liability under Subtitle E of Title IV of ERISA with respect to any Multiemployer Plan.

(iv) No "complete withdrawal" or "partial withdrawal" (within the meaning of ERISA Sections 4203 and 4205, respectively) has occurred with respect to Seller or any ERISA Affiliate of Seller under any Multiemployer Plan, no liability for any such withdrawal has been asserted, and no events or circumstances have occurred which could result in any such complete or partial withdrawal (other than the sale contemplated by this Agreement). Neither Seller nor ERISA Affiliate of Seller is bound by any contract or agreement, or has any obligation or liability, described in Section 4204 of ERISA.

(d) None of Seller, the Business, any ERISA Affiliate, any Plan nor any trust thereunder, nor any trustee or administrator thereof has engaged in a transaction with respect to a Plan pursuant to which either a civil penalty under Section 409 or Section 502(i) of the ERISA or a tax under Section 4975 or 4976 of the Code could be imposed.

(e) Each Plan that covers employees of Seller or the Business has been operated and administered in all material respects in accordance with its terms and Applicable Law, including ERISA and the Code. In the case of any Plan maintained for the benefit of employees in Canada or otherwise outside the United States, such Plan has complied with all Applicable Laws of the country in which the Plan is maintained and operated.

(f) Each Plan which covers employees of Seller or the Business that is intended to be "qualified" within the meaning of Section 401(a) of the Code is so qualified, and the trusts maintained thereunder are exempt from taxation under Section 501(a) of the Code. Each Plan intended to satisfy the requirements of Code Sections 125 or 501(c)(9) has satisfied such requirements.

(g) No Plan provides medical, surgical, hospitalization or death benefits (whether or not insured) for employees or former employees of the Business or the Seller for periods extending beyond their retirement or other termination of service, other than (i) coverage mandated by COBRA, (ii) death benefits under any Pension Plan.

(h) Neither Purchaser nor the Business will, as a result of the consummation of the Transactions be liable to any current or former employee or their dependants of Seller or the Business for any severance pay, unemployment compensation or any other payment or liability under any Plan, except as expressly provided in this Agreement. The consummation of the Transactions will not, either alone or in combination with another event, accelerate the time of payment or vesting, or increase the amount of any compensation under any Plan that covers employees of Seller or the Business.

(i) Except for routine claims for benefits, there are no pending, threatened or anticipated claims with respect to any Plan, by any employee of Seller or the Business.

Section 4.24 Taxes.

(a) All Tax Returns required to be filed on or prior to the Closing Date by or with respect to the Acquired Assets or the operations or the income of Seller and the Business have, within the time and manner prescribed by law, been duly filed with the appropriate tax authorities. All such Tax Returns are

true, correct, and complete in all respects and all Taxes shown to be due on such Tax Returns have been paid. Seller has timely paid or caused to be paid all Taxes required to be paid or have made adequate reserves therefore for all taxable years or periods ending on or before the Closing Date and for the portion of the taxable year or period through and including the Closing Date in the case of any taxable period that begins before and ends after the Closing Date. Purchaser will not incur any Transfer Taxes as a result of the sale of the Business and the Acquired Assets hereunder.

(b) There are no Encumbrances for Taxes upon any of the Acquired Assets except for statutory liens for Taxes not yet due.

(c) Other than any Tax Returns that have not yet been required to be filed, Seller has made available to Purchaser true and correct copies of the United States federal income Tax Return and any material state, local or foreign Tax Return filed by Seller for each of the taxable years ended December 31, 2001, 2002, and 2003.

(d) Seller currently is not the beneficiary of any extension of time within which to file any Tax Return. No claim has ever been made by an authority in a jurisdiction where Seller does not file Tax Returns that it is or may be subject to taxation by that jurisdiction.

(e) Seller has withheld and paid all Taxes required to have been withheld and paid in connection with amounts paid or owing to any employee, independent contractor, creditor, Member, or other third party. Seller has withheld and remitted in a timely manner all sales and use taxes required to be collected from third persons.

(f) None of Seller or any Member or manager (or employee responsible for Tax matters) of Seller expects any authority to assess additional Taxes for any period for which Tax Returns have been filed. There is no dispute or claim concerning any Liability related to Tax matters of Seller either (i) claimed or raised by any authority in writing or (ii) as to which Seller and the Members and managers (and employees responsible for Tax matters) of Seller has Knowledge based upon personal contact with any agent of such authority.

(g) Seller has not waived any statute of limitations in respect of Taxes or agreed to any extension of time with respect to a Tax assessment or deficiency.

(h) The unpaid Taxes of Seller (i) did not, as of December 31, 2003, exceed the reserve for Tax liability (rather than any reserve for deferred Taxes established to reflect timing differences between the book and Tax income) set forth on the face of Seller's December 31, 2003 balance sheet (rather than in any notes thereto) and (ii) will not exceed that reserve as adjusted for the passage of time through the Closing Date in accordance with the past custom and practice of Seller in filing their Tax Returns.

(i) Seller is not a party to any Tax allocation or sharing agreement. Seller (i) has not been a member of an affiliated group filing a consolidated federal income Tax Return, or (ii) has no liability for the Taxes of any Person (other than Seller) under Reg. § 1.1502-6 (or any similar provision of state, local, or foreign law), as a transferee or successor, by contract or otherwise.

Section 4.25 Intellectual Property.

(a) Section 4.25(a) of the Disclosure Schedule sets forth a true and complete list of all Intellectual Property and Computer Software used or held for use in connection with the Business, together with all licenses related to the foregoing, whether Seller or the Business is the licensee or licensor thereunder.

(b) Seller is the sole and exclusive owner or valid licensee of all Intellectual Property, free and clear of all Encumbrances.

(c) All patents, registrations and applications for Intellectual Property that are owned by Seller or are used in and are material to the conduct of the Business as currently conducted (i) are valid, subsisting, in proper form and are enforceable, and have been duly maintained, including the submission of all necessary filings and fees in accordance with the legal and administrative requirements of the appropriate jurisdictions and (ii) have not lapsed, expired or been abandoned, and no patent, registration or application therefore to the Knowledge of Seller is the subject of any opposition, interference, cancellation proceeding or other legal or governmental proceeding before any Governmental Entity in any jurisdiction.

(d) Seller owns or has the valid right to use all of the Intellectual Property used by it or held for use by it in connection with its business. To the Knowledge of Seller, there are no conflicts with or infringements of any Intellectual Property by any third party. The conduct of the Business as currently conducted to the Knowledge of Seller, does not conflict with or infringe in any way on any proprietary right of any third party. There is no claim, suit, action or proceeding pending or, to the Knowledge of Seller, threatened against Seller or the Business (i) alleging any such conflict or infringement with any third party's proprietary rights or (ii) challenging the ownership, use, validity or enforceability of the Intellectual Property.

(e) The Computer Software used by the Business was either (i) developed by employees of Seller or the Business within the scope of their employment, (ii) developed on behalf of Seller or the Business by a third party, and all ownership rights therein have been assigned or otherwise transferred to or vested in Seller or the Business, as the case may be, pursuant to written agreements or (iii) licensed or acquired from a third party pursuant to a written license, assignment, or other contract that is in full force and effect and of which neither of Seller nor the Business is in material breach.

(f) All consents, filings, and authorizations by or with Governmental Entities or third parties necessary with respect to the consummation of the Transactions, as they may affect the Intellectual Property, have been obtained.

(g) Neither Seller, nor the Business, has entered into any consent, indemnification, forbearance to sue, settlement agreement or cross-licensing arrangement with any Person relating to the Intellectual Property or, to the Knowledge of Seller, any Intellectual Property licensed by Seller or the Intellectual Property of any third party, except as contained in any license agreements listed in Section 4.25(g) of the Disclosure Schedule.

(h) Neither Seller, nor the Business, is, nor will be as a result of the execution and delivery of this Agreement or the performance of its obligations under this Agreement, in breach of any license, sublicense or other agreement relating to the Intellectual Property, as long as the Required Consents set forth in Section 4.5 of the Disclosure Schedule are obtained.

Section 4.26 Labor Matters.

(a) There is no labor strike, dispute, campaign, slowdown, stoppage or lockout actually pending, or to the Knowledge of Seller, threatened against or affecting the Business or Seller, and during the past five years there has not been any such action.

(b) Except as set forth in Section 4.26 of the Disclosure Schedule, neither Seller (with respect to the Business) nor the Business is a party to or bound by any collective bargaining or similar agreement with any labor organization or work rules or any practices agreed to with any labor organization or employee association applicable to employees of Seller or the Business.

(e) No collective bargaining agreement which is binding on Seller (with respect to the Business) or the Business restricts any of them from relocating or closing any of their operations.

(f) Except as set forth in Section 4.26(f) of the Disclosure Schedule, the Business has not experienced any work stoppage or other labor difficulty in the past 5 years.

(g) A true and complete copy of each written personnel policy, rule and procedure applicable to employees of the Business is included in Section 4.26(g) of the Disclosure Schedule.

(h) Each of Seller (with respect to the Acquired Assets) and the Business is and has at all times been, in compliance, in all material respects, with all Applicable Laws respecting employment and employment practices, terms and conditions of employment, wages, hours of work and occupational safety and health, and is not engaged in any unfair labor practices, as defined in the National Labor Relations Act or other Applicable Laws.

(i) There is no unfair labor practice charge or complaint against Seller (with respect to the Acquired Assets) or the Business pending or, to the Knowledge of Seller, threatened before the National Labor Relations Board or any similar state or foreign agency.

(j) There is no presently pending grievance arising out of any collective bargaining agreement or other grievance procedure.

(k) To the Knowledge of Seller, no charge with respect to or relating to the Business is pending before the Equal Employment Opportunity Commission or any other agency responsible for the prevention of unlawful employment practices.

(l) Neither Seller (with respect to the Business) nor the Business has received notice of the intent of any federal, state, local or foreign agency responsible for the enforcement of labor or employment laws to conduct an investigation with respect to or relating to the Business, and no such investigation is in progress.

(m) There are no complaints, lawsuits or other proceedings pending or, to the Knowledge of Seller, threatened in any forum by or on behalf of any present or former employee of Seller or the Business, any applicant for employment or classes of the foregoing alleging breach of any express or

implied contract of employment, any laws governing employment or the termination thereof or other discriminatory, wrongful or tortious conduct in connection with the employment relationship.

(n) Since the enactment of the WARN Act, (i) neither Seller, nor the Business, has effectuated a “plant closing” (as defined in the WARN Act) affecting any site of employment or one or more facilities or operating units within any site of employment or facility of the Business, (ii) there has not occurred a “mass layoff” (as defined in the WARN Act) affecting any site of employment or facility of Business, (iii) the Business has not been affected by any transaction or engaged in layoffs or employment terminations sufficient in number to trigger application of any similar state, local or foreign Law or regulation and (iv) none of Business’ employees has suffered an “employment loss” (as defined in the WARN Act) during the six-month period prior to the date hereof.

(o) Section 4.26(o) of the Disclosure Schedule sets forth a true and complete list of all employees and independent contractors of Seller, and includes the current annual salary being paid to each employee and independent contractor and the bonus to which each such employee or independent contractor is entitled to for the 2004 year, and the expected payment date of such bonus.

Section 4.27 Brokers or Finders. No agent, broker, investment banker, financial advisor or other firm or Person is or will be entitled to any broker’s or finder’s fee or any other commission or similar fee in connection with any of the Transactions.

Section 4.28 Full Disclosure. No representation or warranty by Seller contained in this Agreement and no statement contained in any document (including, without limitation, financial statements and the Disclosure Schedule), certificate, or other writing furnished or to be furnished by Seller to Purchaser or any of its representatives (excluding financial forecasts, and other forward looking projections or information) pursuant to the provisions hereof or in connection with the Transactions, contains or will contain any untrue statement of material fact or omits or will omit to state any material fact necessary, in light of the circumstances under which it was made, in order to make the statements herein or therein not misleading. None of Seller, its managers or the Members is aware of any fact that may, either alone or in combination with any other fact, cause a Material Adverse Effect.

ARTICLE V- REPRESENTATIONS AND WARRANTIES OF PURCHASER

Purchaser represents and warrants to Seller that:

Section 5.1 Organization. Purchaser is a corporation duly organized, validly existing and in good standing under the laws of Utah, and has all requisite corporate or other power and authority and all necessary governmental approvals to own, lease and operate its properties and to carry on its business as now being conducted, except where the failure to be so organized, existing and in good standing or to have such power, authority, and governmental approvals would not have, individually or in the aggregate, a material adverse effect on the ability of Purchaser to consummate the Transactions.

Section 5.2 Authorization; Validity of Agreement; Necessary Action. Purchaser has full corporate power and authority to execute and deliver this Agreement and to consummate the Transactions. The execution, delivery and performance by Purchaser of this Agreement and the consummation of the Transactions have been duly authorized by Purchaser's board of directors, and no other corporate action on the part of Purchaser is necessary to authorize the execution and delivery by

Purchaser of this Agreement or the consummation of the Transactions. No vote of, or consent by, the holders of any class or series of stock is necessary to authorize the execution and delivery by Purchaser of this Agreement or the consummation by it of the Transactions. This Agreement has been duly executed and delivered by Purchaser, and, assuming due and valid authorization, execution and delivery hereof by Seller and Members, is a valid and binding obligation of Purchaser, enforceable against it in accordance with its terms except (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws of general application affecting enforcement of creditors' rights generally, and (ii) the availability of the remedy of specific performance or injunctive or other forms of equitable relief may be subject to equitable defenses and would be subject to the discretion of the court before which any proceeding therefore may be brought.

Section 5.3 Consents and Approvals; No Violations. Except as set forth in Section 5.3 of the Disclosure Schedule, none of the execution, delivery or performance of this Agreement by Purchaser, the consummation by it of the Transactions or compliance by it with any of the provisions hereof will (i) conflict with or result in any breach of any provision of its articles of incorporation or bylaws, (ii) require any filing with, or permit, authorization, consent or approval of, any Governmental Entity, (iii) result in a violation or breach of, or constitute (with or without due notice or lapse of time or both) a default (or give rise to any right of termination, cancellation or acceleration) under any of the terms, conditions or provisions of any note, bond, mortgage, indenture, lease, license, contract, agreement or other instrument or obligation to which Purchaser is a party or by which it or any of its respective properties or assets may be bound, or (iv) violate any order, writ, injunction, decree, statute, rule or regulation applicable to Purchaser, or any of its properties or assets, excluding from the foregoing clauses (ii), (iii) and (iv) such violations, breaches or defaults which would not, individually or in the aggregate, have a material adverse effect on the ability of Purchaser to consummate the Transactions or which arise from the regulatory status of Seller.

Section 5.4 Brokers or Finders. None of Purchaser nor any of its Affiliates has entered into any agreement or arrangement entitling any agent, broker, investment banker, financial advisor or other firm or Person to any broker's or finder's fee or any other commission or similar fee in connection with any of the Transactions.

ARTICLE VI- COVENANTS

Section 6.1 Subsequent Actions.

(a) If at any time after the Closing Purchaser will consider or be advised that any deeds, bills of sale, instruments of conveyance, assignments, assurances or any other actions or things are necessary or desirable to vest, perfect or confirm ownership (of record or otherwise) in Purchaser its right, title or interest in, to or under any or all of the Acquired Assets or otherwise to carry out this Agreement, Seller and Members shall execute and deliver all deeds, bills of sale, instruments of conveyance, powers of attorney, assignments and assurances and take and do all such other actions and things as may be reasonably requested by Purchaser in order to vest, perfect or confirm any and all right, title and interest in, to and under such rights, properties or assets in Purchaser or otherwise to carry out this Agreement.

(b) After the Closing, each of Purchaser, Seller and Members shall:

(i) make available to the other parties and to any taxing authority as reasonably requested all information and documents relating to Taxes of the Seller or any Taxes imposed on the Business or Acquired Assets for which the party may have liability;

(ii) provide timely notice to the other parties in writing of any pending or threatened Tax Audit, assessments or litigation of any manner with respect to Seller or the Business for which the other party may have liability under this Agreement; and

(iii) furnish the others with copies of all correspondence received from any taxing authority in connection with any Tax Audit or information request with respect to any taxable period for which the other may have liability under this Agreement.

(c) In case at any time after the Closing Date any further action is necessary, proper or advisable to carry out the purposes of this Agreement, as soon as reasonably practicable, each party hereto shall take, or cause its proper officers, directors, Member and managers to take, all such necessary, proper or advisable actions.

Section 6.2 Publicity. The initial press release and any subsequent public disclosures regarding the transactions contemplated hereby, if any, with respect to the execution of this Agreement shall be as determined by Purchaser. Neither Seller nor Members shall make any public announcement regarding this Agreement or the transaction contemplated hereby without the prior written approval of Purchaser.

Section 6.3 Waiver of Bulk Sales Requirement. Each party waives compliance with any applicable bulk sales laws, including without limitation the Uniform Commercial Code Bulk Transfer provisions. Seller and Members, jointly and severally, agree to pay and discharge in due course and will indemnify and save harmless Purchaser from and against all claims made by creditors of Seller, including expenses and attorneys' fees incurred by Purchaser in defending against such claims, except those expressly assumed by Purchaser pursuant hereto.

Section 6.4 Completion of Non-assignable Contracts. Seller and Members shall use their commercially reasonable efforts to obtain any consent, approval or amendment required to negotiate and/or assign any contract or agreement included in the Acquired Assets, or any other Acquired Asset to be assigned to Purchaser hereunder and Purchaser shall use all commercially reasonable efforts to fulfill Seller's obligations under such contracts. Seller shall keep Purchaser reasonably informed from time to time of the status of the foregoing and Purchaser shall cooperate with Seller in this regard. To the extent that the rights of Seller under any contract or agreement included in the Acquired Assets, or under any other asset to be assigned to Purchaser hereunder, may not be assigned without the consent of another Person which has not been obtained prior to the Closing, this Agreement shall not constitute an

agreement to assign the same if an attempted assignment would be unlawful. If any such consent has not been obtained or if any attempted assignment would be ineffective or would impair Purchaser's rights under the instrument in question so that Purchaser would not acquire the benefit of all such rights, then Seller, to the maximum extent permitted by Applicable Law and the instrument, shall act as Purchaser's agent in order to obtain for Purchaser the benefits thereunder and shall cooperate, to the maximum extent permitted by Applicable Law and the instrument, with Purchaser in any other reasonable arrangement designed to provide such benefits to Purchaser (including, without limitation, by entering into an equivalent arrangement).

Section 6.5 Tax Matters. With respect to any *ad valorem* or other property taxes imposed upon or assessed with respect to any of the Acquired Assets for the tax year in which Closing occurs, Seller shall pay the portion of such taxes that relate to the period ending on the Closing Date (determined on a daily pro rated basis).

Section 6.6 Further Assurances. Each party shall cooperate with the other, and execute and deliver, or use its commercially reasonable efforts to cause to be executed and delivered, all such other instruments, including instruments of conveyance, assignment and transfer, and to make all filings with and to obtain all consents (including Required Consents), approvals or authorizations of any Governmental Entity or other regulatory authority or any other Person under any Permit, agreement, indenture or other instrument, and take all such other actions as such party may reasonably be requested to take by the other party hereto from time to time, consistent with the terms of this Agreement, in order to effectuate the provisions and purposes of this Agreement and the transactions contemplated hereby.

Section 6.7 Restrictions on Transfer of Warrant and Shares Underlying Warrant.

(a) The Warrant and the common stock issuable upon exercise of the Warrant (collectively with the Warrant, the "Securities") are being acquired for investment for Seller's own account, not as nominee or agent, and not with a view to the resale or distribution of any part thereof, and Seller has no present intention of selling, granting any participation in or otherwise distributing the same. Seller is familiar with the phrase "acquired for investment and not with a view to distribution" as it relates to the Securities Act of 1933, as amended (the "Securities Act") and state securities laws and the special meaning given to such term by the Securities and Exchange Commission (the "SEC"). Seller does not have any contract, undertaking, agreement or arrangement with any person to sell, transfer or grant participations to such person or to any third person, with respect to the Securities.

(b) Seller understands that the Securities are being issued without registration under the Securities Act on the ground that the Transactions and the issuance of Securities hereunder is exempt from registration under the Securities Act under one or more exemptions available thereunder, including, without limitation, Regulation D, and that Purchaser's reliance on such exemption is predicated on Seller's representations, warranties and covenants set forth herein. Seller realizes that the basis for the exemption may not be present if, notwithstanding such representations, warranties and covenants, Seller has in mind merely acquiring the Securities or any portion thereof for a fixed or determinable period in the future, or for a market rise, or for sale if the market does not rise. Seller does not have any such intention. Seller acknowledges that Purchaser is not required to rely on such exemption and may rely on any other exemption available to it at the time of such issuance. Seller shall provide such additional representations, warranties and covenants as Purchaser may require in connection the reliance on any other exemption.

(c) Seller has reviewed all of the public filings made by Purchaser with the SEC, and any other information that Seller considers necessary or appropriate for deciding whether to purchase the Securities. Seller has had an opportunity to ask questions and receive answers from Purchaser regarding the business, properties, prospects and financial condition of Purchaser and to obtain additional information necessary to verify the accuracy of any information furnished to Seller or to which Seller had access. Seller has received no, and is not relying upon any, representations, written or oral, from Purchaser, or its officers, directors, employees, attorneys or agents. In making the decision to accept the

Warrant as part of the consideration for the Transactions, Seller has relied solely upon independent investigations made by Seller or its representatives without assistance of Purchaser or its officers, directors, employees, attorneys or agents. None of the following information has ever been represented, guaranteed or warranted to Seller, expressly or by implication, by any person:

(i) The approximate or exact length of time that Seller will be required to hold the Securities;

(ii) The percentage of profit and/or amount of or type of consideration, profit or loss to be realized, if any, as a result of an investment in Purchaser; or

(iii) The possibility that the past performance or experience on the part of Purchaser or any affiliate, officer, director, employee or agent of Purchaser, might in any way indicate or predict the results of ownership of the Securities or the potential success of Purchaser's operations.

(d) Seller and Members are experienced in evaluating and investing in private placement transactions of securities of companies in a similar stage as Purchaser and acknowledges that each are able to fend for himself or itself, to bear the economic risk of an investment in the Securities and each has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of the investment in the Securities.

(e) Seller understands that neither the Securities nor any portion thereof may be sold, transferred or otherwise disposed of without registration under the Securities Act or an exemption therefrom, and that in the absence of an effective registration statement covering the Securities (or such portion thereof) or an available exemption from registration under the Securities Act, the Securities and each portion thereof must be held indefinitely. Seller is aware that neither the Securities nor any portion thereof may be sold pursuant to Rule 144 promulgated under the Securities Act unless all of the conditions of Rule 144 are met.

(f) To the extent applicable, each certificate or other document evidencing any of the Securities may be endorsed with the legends substantially in the form set forth below:

The following legends under the Securities Act:

NEITHER THIS WARRANT NOR THE SHARES OF STOCK ISSUABLE UPON EXERCISE HEREOF HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR UNDER ANY STATE SECURITIES LAWS. THIS WARRANT AND SAID SHARES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND NEITHER THIS WARRANT, SAID SHARES OR ANY INTEREST THEREIN MAY BE TRANSFERRED, SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF A REGISTRATION STATEMENT IN EFFECT WITH RESPECT THERETO UNDER THE ACT OR APPLICABLE STATE SECURITIES LAWS OR AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO THE COMPANY THAT ANY PROPOSED TRANSFER OR RESALE IS IN COMPLIANCE WITH THE ACT AND ANY APPLICABLE STATE SECURITIES LAWS.

Purchaser may endorse such certificates with each legend imposed or required by its articles of incorporation, bylaws or applicable state securities laws.

Section 6.8 Registration of Stock Underlying Warrant. Purchaser shall use its commercially reasonable efforts to (i) promptly following the Closing, but no later than sixty (60) days thereafter, prepare and file with the Securities and Exchange Commission one Registration Statement on Form S-3 to effect a registration covering the resale of the shares of common stock issuable upon exercise of the Warrant, and (ii) have such registration statement declared effective as soon as practicable.

Section 6.9 Warranty Responsibility. From and after the Closing Date, Seller covenants to accept the liability and responsibility of any warranty, replacement or similar claims related to Products existing as of Closing.

Section 6.10 Licenses, Contracts, Etc. Seller and Members hereby covenant and agree to use their best efforts to assist Purchaser in obtaining the necessary licenses to operate the Business.

Section 6.11 Consulting and Employment Agreements. In connection with the Closing, Purchaser and each of Hale, Long and Kazee shall enter into consulting or employment agreements in forms substantially similar to those set forth as Exhibit E hereto in the case of Hale, Exhibit F hereto in the case of Long, and Exhibit G hereto in the case of Kazee. Each of Hale, Long and Kazee hereby acknowledge and agree that Purchaser would not have entered into this Agreement but for each of Hale, Long and Kazee agreeing to the terms set forth in each of their respective consulting or employment agreements attached hereto, and in particular, to the agreement by each of Hale, Long and Kazee to the terms thereof related to covenants not to compete and similar matters.

Section 6.12 Transition of Employee Benefit Plans. Except for those Plans listed on Section 6.23 of the Disclosure Schedule ("Assumed Plans"), Purchaser is not assuming and shall have no Liability under or with respect to any Plans. In the case of any Assumed Plans, Purchaser's and Seller's Liability shall be apportioned as follows: Purchaser shall be liable for obligations arising after the Closing and Seller shall be responsible for all obligations arising on or prior to the Closing. From and after the date hereof, Seller shall remain responsible for offering and providing continuing group health plan coverage under COBRA to all "M&A qualified beneficiaries" within the meaning of Treasury Regulation Section 54.4980B-9 and to any other Persons entitled to such COBRA coverage with respect to the Plans, and shall not take or allow any action that would transfer Liability for such COBRA continuation coverage to Purchaser.

Section 6.13 Member Representative. Each of the Members acknowledge and agree that the Member Representative shall represent all Members, and each of the Members hereby designate and empower the Member Representative to act for all of the Members with respect to any matters related to this Agreement and the transactions contemplated hereby following the Closing, including, without limitation, all matters relating to notices, the Warrant, the Escrow Agreement and any related matters. Any such act by the Member Representative shall be binding upon and enforceable against each of the Members.

ARTICLE VII- INDEMNIFICATION

Section 7.1 Indemnification; Remedies.

(a) Seller and Members, jointly and severally, shall indemnify, defend and hold harmless the Purchaser Indemnified Persons from and against and in respect of all Purchaser Losses and all Retained Liabilities.

(b) Purchaser shall indemnify and hold Seller Indemnified Persons harmless from and against Seller Losses.

Section 7.2 Notice of Claim; Defense. Purchaser on one hand and Seller and Members on the other hand shall give each other prompt notice of any third-party claim that may give rise to any indemnification obligation under this Article XII, together with the estimated amount of such claim, and Seller shall have the right to assume the defense (at Seller's expense) of any such claim through counsel of Seller's own choosing by so notifying Purchaser within 30 days of the first receipt by Seller of such notice from Purchaser; provided, however, that any such counsel shall be reasonably satisfactory to Purchaser. Failure to give such notice shall not affect the indemnification obligations hereunder in the absence of actual and material prejudice. If, under applicable standards of professional conduct, a conflict with respect to any significant issue between any Purchaser Indemnified Person and Seller exists in respect of such third-party claim, Seller shall pay the reasonable fees and expenses of such additional counsel as may be required to be retained in order to eliminate such conflict. Seller shall be liable for the fees and expenses of counsel employed by Purchaser for any period during which Seller has not assumed the defense of any such third-party claim (other than during any period in which Purchaser will have failed to give notice of the third-party claim as provided above). If Seller assumes such defense, Purchaser shall have the right to participate in the defense thereof and to employ counsel, at its own expense, separate from the counsel employed by Seller, it being understood that Seller shall control such defense. If Seller chooses to defend or prosecute a third-party claim, Purchaser shall cooperate in the defense or prosecution thereof, which cooperation shall include, to the extent reasonably requested by Seller, the retention, and the provision to Seller, of records and information reasonably relevant to such third-party claim, and making employees of the Business available on a mutually convenient basis to provide additional information and explanation of any materials provided hereunder. If Seller chooses to defend or prosecute any third-party claim, Purchasers shall agree to any settlement, compromise or discharge of such third-party claim that Seller may recommend and that, by its terms, discharges Purchaser and any of its Affiliates from the full amount of liability in connection with such third-party claim; provided, however, that,

Seller shall not consent to, and Purchaser shall not be required to agree to, the entry of any judgment or enter into any settlement that (i) provides for injunctive or other non-monetary relief affecting Purchaser or any of its Affiliates or (ii) does not include as an unconditional term thereof the giving of a release from all liability with respect to such claim by each claimant or plaintiff to each Purchaser Indemnified Person that is the subject of such third-party claim.

Section 7.3 Survival of Indemnification Claims. The indemnification obligations set forth in this Article XII shall survive the Closing.

Section 7.4 Tax Effect of Indemnification Payments. All indemnity payments made by Seller to Purchaser Indemnified Persons, or by Purchaser Indemnified Persons to Seller, pursuant to this Agreement shall be treated for all Tax purposes as adjustments to the consideration paid with respect to the Acquired Assets.

Section 7.5 Effect of Investigation. The right to indemnification, payment of Purchaser Losses or for other remedies based on any representation, warranty, covenant or obligation of Seller and Members contained in or made pursuant to this Agreement shall not be affected by any investigation conducted with respect to, or any knowledge acquired (or capable of being acquired) at any time, whether before or after the execution and delivery of this Agreement, with respect to the accuracy or inaccuracy of or compliance with, any such representation, warranty, covenant or obligation. The waiver of any condition to the obligation of Purchaser to consummate the Transactions, where such condition is based on the accuracy of any representation or warranty, or on the performance of or compliance with any covenant or obligation, shall not affect the right to indemnification, payment of Purchaser Losses, or other remedy based on such representation, warranty, covenant or obligation.

Section 7.6 Survival of Covenants, Representations and Warranties. Except for the representations and warranties set forth in Section 4.1, Section 4.2, Section 4.12, Section 4.16, Section 4.24, Section 4.27 and Section 6.5**,** each of which shall survive forever, the remaining representations and warranties of Seller and Members made herein or in any other documentation delivered pursuant to this Agreement and the covenants and agreements to be performed on or prior to the Closing Date shall survive until the date two years following the Closing Date; provided, that (a) expiration of a representation, warranty, covenant or agreement shall not affect the obligations of a party with respect to claims for indemnification for which notice has been given to the indemnifying party in accordance with this Article XII prior to such expiration and (b) all covenants, agreements and indemnification matters that contemplate or may involve actions to be taken or obligations in effect after the Closing shall survive the Closing Date.

ARTICLE VIII- MISCELLANEOUS

Section 8.1 Fees and Expenses. All costs and expenses incurred in connection with this Agreement and the consummation of the Transactions shall be paid by the party incurring such expenses, except as specifically provided to the contrary in this Agreement. Seller and Members are expressly responsible for the payment of all Transfer Taxes arising from the transactions contemplated hereunder.

Section 8.2 Amendment and Modification. This Agreement may be amended, modified and supplemented in any respect, but only by a written instrument signed by all of the parties hereto expressly stating that such instrument is intended to amend, modify or supplement this Agreement.

Section 8.3 Notices. All notices and other communications hereunder shall be in writing and shall be deemed given when delivered personally, sent by first-class mail with return receipt or sent by an overnight courier service, such as Federal Express, to the parties at the following addresses (or at such other address for a party as shall be specified by such party by like notice):

If to Purchaser, to:

Merit Medical Systems, Inc.
Attn: President
1600 West Merit Parkway
South Jordan, Utah 84095

with a copy (which shall not constitute notice) to:

Parr Waddoups Brown Gee & Loveless
Attn: Scott W. Loveless
185 South State Street, Suite 1300
Salt Lake City, Utah 84111
Telecopy: (801) 532-7750

and

If to Seller, to:

MedSource Packaging Concepts, LLC
C/o Robert E. Hale
14121 Helmsley Road
Midlothian, VA 23113
Attention: Manager or Members
Telecopy: (804) 267-1875

with a copy (which shall not constitute notice) to:

Gordon D. Fronk, Esq.
Suite 700 Nottingham Centre
502 Washington Avenue
Towson, Maryland 21204
Telecopy: (410) 823-0451

If to the Member Representative, to:

Robert E. Hale
14121 Helmsley Road
Midlothian, VA 23113
Telecopy: (801) 379-7575

or to such other address as a party may from time to time designate in writing in accordance with this section. Each notice or other communication given to any party hereto in accordance with the provisions of this Agreement shall be deemed to have been received (a) on the business day it is received, if sent by

personal delivery, or (b) on the first business day after sending, if sent priority overnight by a nationally recognized overnight courier, properly addressed and prepaid, or (c) upon receipt, if sent by mail (regular, certified or registered); provided, however, that notice of change of address shall be effective only upon receipt.

Section 8.4 Counterparts. This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement and shall become effective when two or more counterparts have been signed by each of the parties and delivered to the other parties.

Section 8.5 Entire Agreement; No Third Party Beneficiaries. This Agreement, the Disclosure Schedule and other schedules, annexes, and exhibits hereto (a) constitute the entire agreement and supercede all prior agreements and understandings, both written and oral, among the parties with respect to the subject matter hereof and thereof and supersede and cancel all prior agreements, negotiations, correspondence, undertakings, understandings and communications of the parties, oral and written, with respect to the subject matter hereof, and (b) are not intended to confer upon any Person other than the parties hereto and thereto any rights or remedies hereunder.

Section 8.6 Severability. Any term or provision of this Agreement that is held by a court of competent jurisdiction or other authority to be invalid, void or unenforceable in any situation in any jurisdiction shall not affect the validity or enforceability of the remaining terms and provisions hereof or the validity or enforceability of the offending term or provision in any other situation or in any other jurisdiction. If the final judgment of a court of competent jurisdiction or other authority declares that any term or provision hereof is invalid, void or unenforceable, the parties agree that the court making such determination shall have the power to reduce the scope, duration, area or applicability of the term or provision, to delete specific words or phrases, or to replace any invalid, void or unenforceable term or provision with a term or provision that is valid and enforceable and that comes closest to expressing the intention of the invalid or unenforceable term or provision.

Section 8.7 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Utah without giving effect to the principles of conflicts of law thereof.

Section 8.8 Enforcement; Venue. The parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions of this Agreement in any court of the United States located in the State of Utah or in Utah state court, this being in addition to any other remedy to which they are entitled at law or in equity. In addition, each of the parties hereto (a) consents to submit itself to the personal jurisdiction of any Federal court located in Salt Lake County in the State of Utah or any Utah state court located in Salt Lake County in the event any dispute arises out of this Agreement or any of the Transactions, (b) agrees that it shall not attempt to deny or defeat such personal jurisdiction by motion or other request for leave from any such court and (c) agrees that it shall not bring any action relating to this Agreement or any of the Transactions in any court other than as set forth above.

Section 8.9 Election of Remedies. Neither the exercise of nor the failure to exercise a right of set-off or to give notice of a claim under this Agreement will constitute an election of remedies or limit

Purchaser or any of the Purchaser Indemnified Persons on the one hand, or Seller or any of the Seller Indemnified Persons on the other hand, in any manner in the enforcement of any other remedies that may be available to any of them, whether at law or in equity.

Section 8.10 Assignment. Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any of the parties hereto (whether by operation of law or otherwise) without the prior written content of the other parties, except that Purchaser may assign, in their sole discretion, any or all of their rights and interests hereunder to any Affiliate of Purchaser. Subject to the preceding sentence, this Agreement shall be binding upon, inure to the benefit of and be enforceable by the parties and their respective successors and assigns.

Section 8.11 Headings. The article, section, paragraph and other headings contained in this Agreement are inserted for convenience of reference only and shall not affect in any way the meaning or interpretation of this Agreement.

Section 8.12 Attorneys' Fees. If a legal action or other proceeding is brought for enforcement of this Agreement because of an alleged dispute, breach, default, or misrepresentation in connection with any of the provisions of this Agreement, the successful or prevailing party shall be entitled to recover reasonable attorneys' fees and costs incurred, both before and after judgment, in addition to any other relief to which they may be entitled.

[*remainder of page intentionally left blank; signature page follows*]

IN WITNESS WHEREOF, Purchaser, Seller, Members and the Member Representative have executed this Agreement or caused this Agreement to be executed by their respective officers, members or managers thereunto duly authorized as of the date first written above.

PURCHASER:

Merit Medical Systems, Inc.,
a Utah corporation

By: _____
Fred P. Lampropoulos
President and CEO

SELLER:

MEDSOURCE PACKAGING CONCEPTS, LLC,
a Virginia limited liability company

By: _____
Robert E. Hale
President

MEMBERS:

_____
Robert E. Hale,
an individual resident of the Commonwealth of Virginia

_____
Charles Long,
an individual resident of the Commonwealth of Virginia

_____
Gary W. Kazee,
an individual resident of the Commonwealth of Virginia

_____
Willis P. Blackwood,
an individual resident of the Commonwealth of Virginia

_____
Robert C. Walker,
an individual resident of the Commonwealth of Virginia

_____
Tommy J. West,
an individual resident of the Commonwealth of Virginia

_____
David T. Richardson,
an individual resident of the Commonwealth of Virginia

MEMBER REPRESENTATIVE:

_____
Robert E. Hale
an individual resident of the Commonwealth of Virginia

EXHIBIT A

Seller's Liabilities

[see attached]

EXHIBIT B

Form of Warrant

[see attached]

EXHIBIT C

Form of Escrow Agreement

[see attached]

EXHIBIT D

Purchase Price Allocation

[see attached]

EXHIBIT E

[Hale Agreement]

[see attached]

EXHIBIT F

[Long Agreement]

[see attached]

EXHIBIT G

[Kazee Agreement]

[see attached]

SEPARATION AGREEMENT AND RELEASE OF ALL CLAIMS

THIS SEPARATION AGREEMENT AND RELEASE OF ALL CLAIMS (the "Agreement") is entered into between Merit Medical Systems, Inc., a Utah corporation ("Employer"), and Brian Ferrand ("Employee").

Definitions

Employer: As used herein, the term "Employer" shall mean and refer to Merit Medical Systems, Inc., a Utah corporation.

Affiliate: As used herein, the term "Affiliate" shall mean and refer to any officer, director, shareholder, employee, and/or agent of Employer; and/or any subsidiary, division, or affiliate of Employer (including without limitation any officer, director, shareholder, employee, and/or agent of any such subsidiary, division, or affiliate); and/or any entity (including without limitation any officer, director, shareholder, employee, and/or agent of such entity) in which Employer owns, directly or indirectly, a legal or beneficial interest (whether in whole or in part); and/or any individual or entity (including without limitation any officer, director, shareholder, employee, and/or agent of such entity) that owns, directly or indirectly, a legal or beneficial interest (whether in whole or in part) in Employer.

Background

Employer has terminated Employee's employment, effective October 18, 2004 (the "Termination Date"). By this Agreement, and the sums paid to or for the benefit of Employee hereunder, Employer and Employee intend to resolve any and all disputes of any kind or character, if any, between them, including without limitation any and all disputes arising from or related to Employee's employment with Employer or any Affiliate, the termination of that employment, or otherwise. Accordingly, Employer and Employee hereby agree as follows:

Agreement

1. Payment to Employee.

a. Employer shall pay Employee the sum of Four Hundred Twenty Three Thousand Seventy-Six and 95/100 Dollars ($423,076.95), payable in 44 equal, bi-weekly installments in the amount of $9,615.39 consistent with Employer's regular and customary payroll practices, with the first payment to occur on Employer's first regular payroll immediately following the Termination Date and continuing thereafter until paid in full (the "Payout Period").

b. If Employee properly elects continuation coverage under Employer's group medical and/or dental insurance plan pursuant to Sections 601 through 607 of the Employee

Retirement Income Security Act of 1974, as amended ("COBRA"), Employer will pay that portion of the premium which Employer paid on behalf of Employee and Employee's enrolled family members prior to the Termination Date through the earlier of (a) April 30, 2006; (b) the date Employee first becomes eligible for coverage under any group health plan maintained by another employer of Employee or his spouse; or (c) the date such COBRA continuation coverage otherwise terminates as to Employee under the provisions of Employer's group medical insurance plan. Nothing herein shall be deemed to extend the otherwise applicable maximum period in which COBRA continuation coverage is provided or supersede the plan provisions relating to early termination of such COBRA continuation coverage. Employee agrees that his portion of the premium for such coverage, if any, shall be deducted from the payments payable to Employee under Section 1.a. above.

Payment of any monies to or on behalf of Employer under this Section 1 shall be subject to all applicable federal, state, and local payroll withholding taxes.

2. Review and Revocation. Employee understands and agrees that he has 45 days from the date he receives this Agreement to consider the terms of and to sign this Agreement. Employee understands that, at his sole and absolute discretion, he may sign this Agreement prior to the expiration of the 45-day period.

Employee further acknowledges and understands that he may revoke this Agreement for a period of up to 7 days after he signs it (not counting the day it was signed) and that the Agreement shall not become effective or enforceable until the 7-day revocation period has expired. To revoke this Agreement, Employee must give written notice stating that he wishes to revoke the Agreement to Director, Organizational Development, Merit Medical Systems, Inc., 1600 Merit Drive, South Jordan, UT 84095, Telefax: 801/208-4302. If Employee mails a notice of revocation to Employer, it must be postmarked no later than 7 days following the date on which he signed this Agreement (not counting the day it was signed) or such revocation shall not be effective.

3. Release of All Claims. In consideration for the payments stated in Section 1 and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Employee, for himself and his heirs, assigns, and all persons and entities claiming by, through, or under him, hereby irrevocably, unconditionally, and completely releases, discharges, and agrees to hold Employer and its Affiliates, individually or in any combination thereof (hereinafter collectively referred to as "Releasees"), harmless of and from any and all claims, liabilities, charges, demands, grievances, and causes of action of any kind or nature whatsoever, including without limitation claims for contribution, subrogation, or indemnification, whether direct or indirect, liquidated or unliquidated, known or unknown, which Employee had, has, or may claim to have against Releasees (hereinafter collectively referred to as "Claim(s)").

The release, discharge, and agreement to hold harmless set forth in this Section 3 includes without limitation any Claim(s) that Employee has, had, or may claim to have against Releasees (a) for wrongful termination or discharge, negligent or intentional infliction of emotional distress, breach

of express or implied contract of employment (including without limitation any Claim(s) under the Arizona Employment Relationship and Constructive Discharge Law, the Employment Agreement dated April 1, 1998, between Employer and Employee, any other written or oral agreement of any type or kind, or otherwise,), breach of the covenant of good faith and fair dealing, defamation, breach of privacy, whistleblowing, employment-related torts, negligence, or personal injury (whether physical or mental); (b) for any Claim(s) arising under federal or state law, including without limitation Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1991, the Americans with Disabilities Act, the Age Discrimination in Employment Act, the Utah Antidiscrimination Act, the Arizona Civil Rights Act, or any other federal, state, or local law prohibiting discrimination or harassment on the basis of race, color, religion, sex, age, national origin, disability, or any other protected group status; (c) for any Claim(s) arising under the Employee Retirement Income Security Act ("ERISA"), (d) for any Claim(s) arising under the Family and Medical Leave Act or any similar family, medical, school, or other leave law under any Arizona state, county, or city law or ordinance; (e) for any Claim(s) for attorney's fees or costs, and (f) for any other Claim(s) in any way related to or arising out of Employee's employment with Employer or the termination of that employment.

Nothing in this Agreement waives Employee's rights, if any, to continue Employee's participation in Employer's group health insurance plan, as allowed by COBRA and the terms, conditions, and limitations of the plan.

4. Full and Complete Release. Employee understands and agrees that he is releasing and waiving Claim(s) that he does not know exist or may exist in his favor at the time he signs this Agreement which, if known by him, would materially affect his decision to sign this Agreement. Nonetheless, for the purpose of implementing a full and complete release and discharge of Releasees, Employee expressly acknowledges that the release set forth in Section 3 is intended to include in its effect, without limitation, all Claim(s) which Employee does not know or suspect to exist in his favor and that the release set forth in Section 3 contemplates the extinguishment of any such Claim(s).

5. Covenant of Confidentiality. Employee agrees that, as a material term of this Agreement and to protect the goodwill, the Confidential Information (as defined below), and the business of Employer, Employee shall not, from the date of this Agreement through the end of the Payout Period or at any time thereafter, without the express, prior written consent of the President of Employer: (i) ever reveal, disclose, furnish, make accessible, or disseminate any of Employer's Confidential Information or any other matter concerning the business affairs of Employer or of any customer or vendor of Employer or (ii) ever use or exploit any of Employer's Confidential Information or any other matter concerning the business affairs of Employer or of any customer or vendor of Employer for the personal and/or financial use, gain, or benefit of Employee or of any other person or entity or for any other purpose.

For purposes of this Agreement, "Confidential Information" means names, addresses, telephone numbers, contact persons, and other identifying and confidential information about persons, firms, corporations, and/or other entities that are or become customers, accounts, licensors, vendors, and/or suppliers of goods or services to or of Employer; customer lists; details of client or

consultant contracts; details of customer usage; non-public pricing policies; operational methods; marketing plans or strategies; product and program developments and plans; research projects; technology and technical processes; business acquisition plans; personnel information and plans, including without limitation compensation and contract terms; methods of production; inventions; improvements; designs; original works of authorship; derivative works; formulas; processes; compositions of matter; computer software and related information, including without limitation programs, code, concepts, methods, routines, formulas, algorithms, designs, specifications, architectures, or inventions embodied therein, as well as all data, documentation, and copyrights related thereto; patent applications; databases; mask works; trade secrets; know-how; ideas; service marks; planned or proposed Website ideas and plans, including but not limited to look and feel; and other intellectual property or proprietary information rights and any and all rights, applications, extensions and renewals in connection therewith (either proposed, filed, or in preparation for filing); and financial information and general confidential business information of the Employer. Such information is confidential and unique, not generally known in the industry, and gives the Employer a competitive advantage and significantly enhances the Employer's goodwill.

Notwithstanding the foregoing, Confidential Information excludes information not protected by trademark, copyright, patent, or other similar state, federal, or worldwide protection and that, through no fault of Employee, is generally known to the public, is generally employed in the medical device or equipment manufacturing industry at or after the time Employee first learns of such information, or generic information or knowledge which the Employee would have learned in the course of similar employment or work elsewhere in the medical device or equipment manufacturing industry; provided, however, that Employee shall bear the burden of proving that any information disclosed or used by Employee does not meet the definition of Confidential Information set forth above and/or that the disclosure or use of Confidential Information occurred through no fault of Employee.

6. Covenant Not to Provide Services / Solicit Existing Customers. Employee acknowledges the character of Employer's business and the substantial amount of time, money, and effort that Employer has spent and will spend in recruitment of clients, customers, and/or accounts. As a material term of this Agreement and to protect the goodwill, the Confidential Information, and the business of Employer, Employee covenants that, from the date of this Agreement through the end of the Payout Period, Employee shall not, anywhere in the United States, either individually or on behalf of or with any person or entity, directly or indirectly (a) provide services relating to the manufacture or sale of medical devices or equipment of the type and kind manufactured and/or sold by Employer to any individual or entity that was a customer, client, or account of Employer at the time Employee's employment with Employer terminated or at any time during the one (1) year period immediately preceding such termination, (b) solicit or otherwise attempt to sell medical devices or equipment of the type and kind manufactured and/or sold by Employer to any individual or entity that was a customer, client, or account of Employer at the time Employee's employment with Employer terminated or at any time during the one (1) year period immediately preceding such termination, (c) solicit or otherwise attempt to sell medical devices or equipment of the type and kind manufactured and/or sold by Employer to any individual or entity that was a prospective customer,

client, or account whose business Employee solicited as a representative of or on behalf of Employer or with whom Employee became acquainted or whose identity Employee learned of as a consequence of his employment with Employer within the six (6) month period immediately preceding the termination of Employee's employment with Employer, (d) solicit or otherwise deal with any clients, vendors, or independent contractors of Employer in any manner designed to (or that reasonably could) divert business from Employer, and/or (e) solicit or otherwise induce any employee of Employer to terminate his/her employment with Employer.

7. Return of Goods to Employer. Employee covenants and represents that he has returned to Employer all Confidential Information, the cellular phone provided to him by Employer, all company credit cards, office keys, etc. that he obtained or that were made available to him as a consequence of his employment with Employer. Notwithstanding the foregoing, Employee may retain the laptop computer provided for his use by Employer after Employer has had the opportunity to erase all Confidential Information or other matters Employer deems appropriate from such laptop computer.

8. Limited Covenant Not to Compete. Employee acknowledges that Boston Scientific Corporation is a direct competitor of Employer and that any association by Employee with Boston Scientific Corporation would likely require Employee to disclose or to rely on information protected by Section 5 of this Agreement in the satisfactory performance of his job and/or consulting services for Boston Scientific Corporation. Accordingly, to protect the goodwill, the Confidential Information, and the business of Employer, Employee hereby agrees that, from the date of this Agreement through the end of the Payout Period, Employee shall not, either directly or indirectly, be an employee of, provide consulting services of any kind or character to, or in any way be connected with Boston Scientific Corporation or any subsidiary or affiliate of Boston Scientific Corporation without the prior written consent of the President of Employer. Except as specifically set forth in this Section 8, Employee may accept employment with or act as a consultant to any other individual or entity provided that Employee will not, by satisfying in good faith the obligations of his position or responsibilities with such individual or entity, reasonably be likely to violate the provisions of either Sections 5 or 6 of this Agreement.

9. Resignation as Officer. Employee hereby resigns as an officer of Employer or any Affiliate, effective October 18, 2004.

10. Wages and Commissions Paid in Full. Except as specifically set forth in Section 1 above, Employee acknowledges that he has received all monies due and owing to Employee from Employer, including without limitation any monies due and owing to Employee for wages, accrued but unused vacation benefits, commissions, or otherwise and that he has no claim against Employer whatsoever for the payment of any further wages, commissions, vacation benefits, or other monies except as specifically set forth in Section 1. Employee acknowledges and agrees that he shall not be eligible for vacation, sick leave, retirement, life insurance, disability insurance, worker's compensation, or any other benefit that is or may become available to employees of Employer.

11. Agreement Confidential. This Agreement is confidential information owned by Employer. Employee agrees that he shall not disclose the terms of this Agreement except to the extent required by law. Notwithstanding the foregoing, Employee may disclose the terms of this Agreement to his spouse, attorney, and/or tax advisor. If Employee discloses the terms of this Agreement to his spouse, attorney, and/or tax advisor, he will advise such person that, as a condition of such disclosure, s/he must not disclose the terms of this Agreement except to the extent required by law.

12. Nondisparagement. Employee covenants that, as an agreed on material term of this Agreement, he will not make any disparaging remarks about Employer, or any director, officer, or employee of Employer, and shall refrain from saying or doing anything that could in any way hold Employer or any director, officer, or employee of Employer up to disrepute in the eyes of any other person or entity or that could in any way interfere with Employer's current or future business plans or activities.

13. Not an Admission. This Agreement does not constitute an admission by Releasees, and Releasees specifically deny, that Releasees have violated any contract, law, or regulation or that they, it, or s/he has discriminated against Employee or otherwise infringed on Employee's rights and privileges or done any other wrongful act.

14. Severability. If a court of competent jurisdiction shall find that the provisions of Section 3 of this Agreement is unenforceable, whether in whole or in part, then Employer shall have the right, at its sole option and to the extent allowed by applicable law, to rescind this Agreement and to cease any payments due and/or to recover from Employee all sums paid by Employer to Employee under Section 1 of this Agreement. Except as set forth in the immediately preceding sentence, if any part of this Agreement is found to be unenforceable, the other provisions shall remain fully valid and enforceable. It is the intention and agreement of the parties that all of the terms and conditions hereof be enforced to the fullest extent permitted by law.

15. Entire Agreement. This Agreement constitutes the entire integrated understanding between the parties regarding the subject matter hereof and supersedes all negotiations, representations, prior discussions, and preliminary agreements between the parties with respect to the subject matter hereof. No promise, representation, warranty, or covenant not included in this Agreement has been or is relied upon by either party. Notwithstanding any statute or case law to the contrary, this Agreement may not be modified except by a written instrument signed by each of the parties, whether or not such modification is supported by separate consideration.

16. Governing Law. Notwithstanding any conflict of laws provisions to the contrary, this Agreement shall be governed by the laws of the State of Utah, and each party hereby expressly submits itself or himself to the exclusive, personal jurisdiction of the courts situate in the State of Utah with respect to any and all claims, demands, and/or causes of action asserted or filed by any party in any way relating to, or arising out of, this Agreement or the subject matter hereof.

17. Waiver. Any waiver by any party hereto of any breach of any kind or character whatsoever by any other party, whether such waiver be direct or implied, shall not be construed as a continuing waiver of, or consent to, any subsequent breach of this Agreement on the part of the other party. In addition, no course of dealing between the parties, nor any delay in exercising any rights or remedies hereunder or otherwise, shall operate as a waiver of any of the rights or remedies of the parties.

18. Binding Nature. This Agreement shall inure to and bind the heirs, devisees, executors, administrators, personal representatives, successors, and assigns (as applicable) of the respective parties hereto.

19. Headings. The headings contained in this Agreement are for ease of reference only and shall not limit or otherwise affect the interpretation of this Agreement

20. Entire Agreement. This Agreement contains the entire integrated understanding of the parties with respect to the subject matter of this Agreement and shall not be modified other than by an instrument in writing signed by both Employer and Employee.

21. Attorney's Fees. If a civil action or other proceeding is brought to enforce this Agreement, the prevailing party shall be entitled to recover reasonable attorney's fees, costs, and expenses incurred, in addition to any other relief to which such party may be entitled.

22. Knowing and Voluntary Execution. Employee acknowledges that he has read this Agreement carefully and fully understands the meaning of the terms of this Agreement. Employee acknowledges that he has signed this Agreement voluntarily and of his own free will and that he is knowingly and voluntarily releasing and waiving all Claim(s) that he has or may have against Releasees. *Employee further acknowledges that he has been advised, by this Agreement, to consult with an attorney of his choice prior to signing this Agreement.* Each party agrees that he or it shall be solely responsible for any attorney's fees incurred by that party in the negotiation and execution of this Agreement.

"EMPLOYEE"

DATED: _____ _____

Brian Ferrand

"EMPLOYER"

Merit Medical Systems, Inc.,
a Utah corporation,

DATED: _____ By: _____

Its: _____

Exhibit 21

SUBSIDIARIES OF MERIT MEDICAL SYSTEMS, INC.

Name	Jurisdiction of Incorporation/Organization
Merit Holdings, Inc.	Utah
Merit Sensor Systems, Inc.	Utah
Merit Medical International, Inc.	U.S. Virgin Islands
Merit Medical Services, L.P.	Utah
Merit Services, Inc.	Utah
Merit Medical Belgium B.V.B.A.	Belgium
Merit Medical France SAS	France
Merit Medical Germany GmbH	Germany
Merit Medical UK Limited	United Kingdom
Merit Medical Nederland B.V.	Netherlands
Merit Medical Ireland Limited	Ireland

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-10509, 333-92053, 333-58112, 333-58162, and 333-116365 on Forms S-8 and Registration Statement No. 333-122803 on Form S-3 of our reports dated March 11, 2005, relating to the financial statements and financial statement schedule of Merit Medical Systems, Inc. and management's report of the effectiveness of internal control over financial reporting, appearing in this Annual Report on Form 10-K of Merit Medical Systems, Inc. for the year ended December 31, 2004.

/s/ DELOITTE & TOUCHE LLP

Salt Lake City, Utah
March 11, 2005

Exhibit 31.1

CERTIFICATION

I, Fred P. Lampropoulos, certify that:

1. I have reviewed this Annual Report on Form 10-K of Merit Medical Systems, Inc. for the year ended December 31, 2004;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of and for the periods presented in this report.

4. The registrant's other certifying officer(s) and I are responsible and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with general accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reported that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2005

/s/ Fred P. Lampropoulos

Fred P. Lampropoulos
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Kent W. Stanger, certify that:

1. I have reviewed this Annual Report on Form 10-K of Merit Medical Systems, Inc. for the year ended December 31, 2004;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of and for the periods presented in this report.

4. The registrant's other certifying officer(s) and I are responsible and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with general accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reported that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2005

/s/ Kent W. Stanger

Kent W. Stanger
Chief Financial Officer

EXHIBIT 32.1

Certification of Chief Executive Officer
Pursuant to Section 906 of the
Sarbanes-Oxley Act of 2002

In connection with this annual report on Form 10-K of Merit Medical Systems, Inc. for the year ended December 31, 2004, I, Fred P. Lampropoulos, Chief Executive Officer of Merit Medical Systems, Inc., certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The report fully complies with the requirements of Section 13(a) or 15 (d) of the Securities Exchange Act of 1934; and

(2) The information contained in this report fairly presents, in all material respects, the financial condition and results of operations of Merit Medical Systems, Inc.

Date: March 15, 2005

/s/ Fred P. Lampropoulos

Fred P. Lampropoulos
President and Chief Executive Officer

EXHIBIT 32.2

Certification of Chief Financial Officer
Pursuant to Section 906 of the
Sarbanes-Oxley Act of 2002

In connection with this annual report on Form 10-K of Merit Medical Systems, Inc. for the year ended December 31, 2004, I, Kent W. Stanger, Chief Financial Officer of Merit Medical Systems, Inc., certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The report fully complies with the requirements of Section 13(a) or 15 (d) of the Securities Exchange Act of 1934; and

(2) The information contained in this report fairly presents, in all material respects, the financial condition and results of operations of Merit Medical Systems, Inc.

Date: March 15, 2005

/s/ Kent W. Stanger
Kent W. Stanger
Chief Financial Officer