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# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**FOR THE QUARTERLY PERIOD ENDED September 30, 2020**

**OR**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**FOR THE TRANSITION PERIOD FROM TO .**

**Commission File Number 0-18592**

## MERIT MEDICAL SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

| **Utah** | **87-0447695** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (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:**

| **Title of each class** | **Trading Symbol** | **Name of exchange on which registered** |
|---|---|---|
| Common Stock, no par | MMSI | NASDAQ Global Select Market |

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 filing requirements for the past 90 days. Yes ☒ No ☐

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

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

Large Accelerated Filer ☒ Accelerated Filer ☐ Non-Accelerated Filer ☐ Smaller Reporting Company ☐ Emerging Growth Company ☐

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

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

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

| **Common Stock** | 55,547,463 |
|---|---|
| Title or class | Number of Shares Outstanding at November 2, 2020 |

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**PART I - FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES**
**CONSOLIDATED BALANCE SHEETS**
**SEPTEMBER 30, 2020 AND DECEMBER 31, 2019**
**(In thousands)**

| | September 30, 2020 | December 31, 2019 |
|---|---|---|
| **ASSETS** | (unaudited) | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 44,551 | $ 44,320 |
| Trade receivables — net of allowance for uncollectible accounts — 2020 — $4,687 and 2019 — $3,108 | 141,957 | 155,365 |
| Other receivables | 8,073 | 10,016 |
| Inventories | 209,109 | 225,698 |
| Prepaid expenses and other current assets | 15,579 | 12,497 |
| Prepaid income taxes | 3,545 | 3,491 |
| Income tax refund receivables | 11,812 | 3,151 |
| Total current assets | 434,626 | 454,538 |
| PROPERTY AND EQUIPMENT: | | |
| Land and land improvements | 28,090 | 27,554 |
| Buildings | 182,914 | 153,863 |
| Manufacturing equipment | 266,755 | 244,368 |
| Furniture and fixtures | 61,830 | 57,623 |
| Leasehold improvements | 48,549 | 43,311 |
| Construction-in-progress | 50,251 | 83,685 |
| Total property and equipment | 638,389 | 610,404 |
| Less accumulated depreciation | (254,585) | (231,619) |
| Property and equipment — net | 383,804 | 378,785 |
| OTHER ASSETS: | | |
| Intangible assets: | | |
| Developed technology — net of accumulated amortization —2020 — $182,148 and 2019 — $149,947 | 331,851 | 379,529 |
| Other — net of accumulated amortization — 2020 — $56,913 and 2019 — $65,607 | 50,964 | 65,783 |
| Goodwill | 353,622 | 353,193 |
| Deferred income tax assets | 3,857 | 3,788 |
| Right-of-use operating lease assets | 76,775 | 80,244 |
| Other assets | 35,011 | 41,461 |
| Total other assets | 852,080 | 923,998 |
| TOTAL ASSETS | $ 1,670,510 | $ 1,757,321 |

See condensed notes to consolidated financial statements.

(continued)

**MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES**
**CONSOLIDATED BALANCE SHEETS**
**SEPTEMBER 30, 2020 AND DECEMBER 31, 2019**
**(In thousands)**

| | September 30, 2020 | December 31, 2019 |
|---|---|---|
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | (unaudited) | |
| CURRENT LIABILITIES: | | |
| Trade payables | $ 46,634 | $ 54,623 |
| Accrued expenses | 116,927 | 105,184 |
| Current portion of long-term debt | 7,500 | 7,500 |
| Short-term operating lease liabilities | 12,981 | 11,550 |
| Income taxes payable | 2,005 | 2,799 |
| Total current liabilities | 186,047 | 181,656 |
| Long-term debt | 349,813 | 431,984 |
| Deferred income tax liabilities | 45,439 | 45,236 |
| Long-term income taxes payable | 347 | 347 |
| Liabilities related to unrecognized tax benefits | 1,990 | 1,990 |
| Deferred compensation payable | 15,396 | 14,855 |
| Deferred credits | 1,948 | 2,122 |
| Long-term operating lease liabilities | 69,407 | 72,714 |
| Other long-term obligations | 66,286 | 56,473 |
| Total liabilities | 736,673 | 807,377 |
| Commitments and contingencies (Notes 4, 8, 9 and 10) | | |
| STOCKHOLDERS' EQUITY: | | |
| Preferred stock — 5,000 shares authorized as of September 30, 2020 and December 31, 2019; no shares issued | — | — |
| Common stock, no par value; shares authorized — 2020 and 2019 - 100,000; issued and outstanding as of September 30, 2020 - 55,538 and December 31, 2019 - 55,213 | 600,737 | 587,017 |
| Retained earnings | 342,425 | 368,221 |
| Accumulated other comprehensive loss | (9,325) | (5,294) |
| Total stockholders' equity | 933,837 | 949,944 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $ 1,670,510 | $ 1,757,321 |

See condensed notes to consolidated financial statements. (concluded)

**MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF INCOME (LOSS)**
**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019**
**(In thousands, except per share amounts - unaudited)**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| NET SALES | $ 243,975 | $ 243,049 | $ 705,871 | $ 736,930 |
| COST OF SALES | 141,961 | 138,913 | 415,857 | 416,194 |
| GROSS PROFIT | 102,014 | 104,136 | 290,014 | 320,736 |
| OPERATING EXPENSES: | | | | |
| Selling, general and administrative | 72,215 | 86,936 | 217,790 | 245,183 |
| Research and development | 13,506 | 16,987 | 42,404 | 49,361 |
| Legal settlement | — | — | 18,200 | — |
| Impairment charges | 20,585 | 2,702 | 28,305 | 3,250 |
| Contingent consideration expense (benefit) | (4,356) | 392 | 884 | 3,573 |
| Acquired in-process research and development | — | — | — | 525 |
| Total operating expenses | 101,950 | 107,017 | 307,583 | 301,892 |
| INCOME (LOSS) FROM OPERATIONS | 64 | (2,881) | (17,569) | 18,844 |
| OTHER INCOME (EXPENSE): | | | | |
| Interest income | 67 | 328 | 234 | 1,027 |
| Interest expense | (2,197) | (3,415) | (8,056) | (9,295) |
| Other income (expense) - net | (118) | 278 | (1,085) | (421) |
| Total other expense — net | (2,248) | (2,809) | (8,907) | (8,689) |
| INCOME (LOSS) BEFORE INCOME TAXES | (2,184) | (5,690) | (26,476) | 10,155 |
| INCOME TAX (BENEFIT) EXPENSE | 825 | (2,292) | (1,255) | 499 |
| NET INCOME (LOSS) | $ (3,009) | $ (3,398) | $ (25,221) | $ 9,656 |
| EARNINGS (LOSS) PER COMMON SHARE: | | | | |
| Basic | $ (0.05) | $ (0.06) | $ (0.46) | $ 0.18 |
| Diluted | $ (0.05) | $ (0.06) | $ (0.46) | $ 0.17 |
| AVERAGE COMMON SHARES: | | | | |
| Basic | 55,505 | 55,152 | 55,386 | 55,029 |
| Diluted | 55,505 | 55,152 | 55,386 | 56,393 |

See condensed notes to consolidated financial statements.

**MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**
**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019**
**(In thousands - unaudited)**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Net income (loss) | $ (3,009) | $ (3,398) | $ (25,221) | $ 9,656 |
| Other comprehensive income (loss): | | | | |
| Cash flow hedges | (592) | (207) | (7,875) | (3,938) |
| Income tax benefit (expense) | 152 | 53 | 2,027 | 1,014 |
| Foreign currency translation adjustment | 3,545 | (2,779) | 1,944 | (3,120) |
| Income tax benefit (expense) | (117) | (14) | (127) | (17) |
| Total other comprehensive income (loss) | 2,988 | (2,947) | (4,031) | (6,061) |
| Total comprehensive income (loss) | $ (21) | $ (6,345) | $ (29,252) | $ 3,595 |

See condensed notes to consolidated financial statements.

**MERIT MEDICAL SYSTEMS, INC.**
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**
**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019**
**(In thousands - unaudited)**

| | Total | Common Stock Shares | Common Stock Amount | Retained Earnings | Accumulated Other Comprehensive Loss |
|---|---|---|---|---|---|
| BALANCE — January 1, 2020 | $ 949,944 | 55,213 | $ 587,017 | $ 368,221 | $ (5,294) |
| Net loss | (3,154) | | | (3,154) | |
| Cumulative effect adjustment upon adoption of ASU 2016-13, *Credit Losses* | (575) | | | (575) | |
| Other comprehensive loss | (9,465) | | | | (9,465) |
| Stock-based compensation expense | 2,641 | | 2,641 | | |
| Options exercised | 2,369 | 174 | 2,369 | | |
| Issuance of common stock under Employee Stock Purchase Plan | 371 | 13 | 371 | | |
| Shares surrendered in exchange for payment of payroll tax liabilities | (866) | (23) | (866) | | |
| Shares surrendered in exchange for exercise of stock options | (1,467) | (39) | (1,467) | | |
| BALANCE — March 31, 2020 | 939,798 | 55,338 | 590,065 | 364,492 | (14,759) |
| Net loss | (19,058) | | | (19,058) | |
| Other comprehensive income | 2,446 | | | | 2,446 |
| Stock-based compensation expense | 3,197 | | 3,197 | | |
| Options exercised | 2,229 | 138 | 2,229 | | |
| Issuance of common stock under Employee Stock Purchase Plan | 235 | 5 | 235 | | |
| BALANCE — June 30, 2020 | 928,847 | 55,481 | 595,726 | 345,434 | (12,313) |
| Net loss | (3,009) | | | (3,009) | |
| Other comprehensive income | 2,988 | | | | 2,988 |
| Stock-based compensation expense | 3,794 | | 3,794 | | |
| Options exercised | 950 | 50 | 950 | | |
| Issuance of common stock under Employee Stock Purchase Plan | 267 | 7 | 267 | | |
| BALANCE — September 30, 2020 | $ 933,837 | 55,538 | $ 600,737 | $ 342,425 | $ (9,325) |

See condensed notes to consolidated financial statements.

(continued)

**MERIT MEDICAL SYSTEMS, INC.**
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**
**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019**
**(In thousands - unaudited)**

| | Total | Common Stock Shares | Common Stock Amount | Retained Earnings | Accumulated Other Comprehensive Loss |
|---|---|---|---|---|---|
| BALANCE — January 1, 2019 | $ 932,775 | 54,893 | $ 571,383 | $ 363,425 | $ (2,033) |
| Net income | 6,195 | | | 6,195 | |
| Reclassify deferred gain on sale-leaseback upon adoption of ASC 842 | 93 | | | 93 | |
| Other comprehensive loss | (2,515) | | | | (2,515) |
| Stock-based compensation expense | 1,766 | | 1,766 | | |
| Options exercised | 1,365 | 95 | 1,365 | | |
| Issuance of common stock under Employee Stock Purchase Plan | 432 | 7 | 432 | | |
| BALANCE — March 31, 2019 | 940,111 | 54,995 | 574,946 | 369,713 | (4,548) |
| Net income | 6,859 | | | 6,859 | |
| Other comprehensive loss | (599) | | | | (599) |
| Stock-based compensation expense | 2,523 | | 2,523 | | |
| Options exercised | 1,441 | 78 | 1,441 | | |
| Issuance of common stock under Employee Stock Purchase Plan | 340 | 6 | 340 | | |
| BALANCE — June 30, 2019 | 950,675 | 55,079 | 579,250 | 376,572 | (5,147) |
| Net loss | (3,398) | | | (3,398) | |
| Other comprehensive loss | (2,947) | | | | (2,947) |
| Stock-based compensation expense | 2,626 | | 2,626 | | |
| Options exercised | 2,037 | 120 | 2,037 | | |
| Issuance of common stock under Employee Stock Purchase Plan | 341 | 12 | 341 | | |
| Shares surrendered in exchange for exercise of stock options | (93) | (3) | (93) | | |
| BALANCE — September 30, 2019 | $ 949,241 | 55,208 | $ 584,161 | $ 373,174 | $ (8,094) |

See condensed notes to consolidated financial statements. (concluded)

**MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019**
**(In thousands - unaudited)**

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2020 | 2019 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income (loss) | $ (25,221) | $ 9,656 |
| | | |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 70,458 | 68,507 |
| Gain on sale of business | (508) | — |
| Loss on sales and/or abandonment of property and equipment | 1,303 | 637 |
| Write-off of certain intangible assets and other long-term assets | 28,409 | 3,492 |
| Acquired in-process research and development | — | 525 |
| Amortization of right-of-use operating lease assets | 9,522 | 9,226 |
| Fair value adjustments to contingent consideration | 884 | 3,573 |
| Amortization of deferred credits | (103) | (104) |
| Amortization of long-term debt issuance costs | 453 | 570 |
| Stock-based compensation expense | 10,268 | 6,915 |
| Changes in operating assets and liabilities, net of acquisitions and divestitures: | | |
| Trade receivables | 13,049 | (6,786) |
| Other receivables | 1,170 | (29) |
| Inventories | 15,668 | (19,302) |
| Prepaid expenses and other current assets | (3,929) | (3,859) |
| Prepaid income taxes | (35) | — |
| Income tax refund receivables | (8,666) | (8,680) |
| Other assets | (1,088) | (3,832) |
| Trade payables | (2,682) | (3,775) |
| Accrued expenses | 22,591 | 1,678 |
| Income taxes payable | 1,079 | (928) |
| Deferred compensation payable | 541 | 2,276 |
| Operating lease liabilities | (9,398) | (8,956) |
| Other long-term obligations | 4,590 | 100 |
| | | |
| Total adjustments | 153,576 | 41,248 |
| | | |
| Net cash provided by operating activities | 128,355 | 50,904 |
| | | |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Capital expenditures for: | | |
| Property and equipment | (35,590) | (58,104) |
| Intangible assets | (2,499) | (2,560) |
| Proceeds from the sale of property and equipment | 33 | 262 |
| Proceeds from sale of business | 1,285 | — |
| Cash received for settlement of current note receivable | 250 | — |
| Cash paid in acquisitions, net of cash acquired | (260) | (53,512) |
| | | |
| Net cash used in investing activities | $ (36,781) | $ (113,914) |

See condensed notes to consolidated financial statements.

(continued)

**MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019**
**(In thousands - unaudited)**

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2020 | 2019 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from issuance of common stock | $ 4,954 | $ 5,863 |
| Proceeds from issuance of long-term debt | 46,051 | 194,477 |
| Payments on long-term debt | (128,306) | (149,477) |
| Long-term debt issuance costs | — | (1,479) |
| Contingent payments related to acquisitions | (12,991) | (15,684) |
| Payment of taxes related to an exchange of common stock | (866) | — |
| Net cash provided by (used in) financing activities | (91,158) | 33,700 |
| EFFECT OF EXCHANGE RATES ON CASH | (185) | (734) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 231 | (30,044) |
| CASH AND CASH EQUIVALENTS: | | |
| Beginning of period | 44,320 | 67,359 |
| End of period | $ 44,551 | $ 37,315 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | |
| Cash paid during the period for: | | |
| Interest (net of capitalized interest of $679 and $896, respectively) | $ 8,138 | $ 9,319 |
| Income taxes | $ 6,449 | $ 10,071 |
| SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES | | |
| Property and equipment purchases in accounts payable | $ 2,726 | $ 7,481 |
| Current note receivable converted to equity investment | $ 899 | $ — |
| Proceeds from sale of business in other receivables | $ 321 | $ — |
| Acquisition purchases in accrued expenses and other long-term obligations | $ — | $ 9,583 |
| Merit common stock surrendered (39 and 3 shares, respectively) in exchange for exercise of stock options | $ 1,467 | $ 93 |
| Right-of-use operating lease assets obtained in exchange for operating lease liabilities | $ 7,285 | $ 7,431 |

See condensed notes to consolidated financial statements. (concluded)

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

**1. Basis of Presentation and Other Items.** The interim consolidated financial statements of Merit Medical Systems, Inc. ("Merit," "we" or "us") for the three and nine-month periods ended September 30, 2020 and 2019 are not audited. Our consolidated financial statements are prepared in accordance with the requirements for unaudited interim periods and, consequently, do not include all disclosures required to be made in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). In the opinion of our management, the accompanying consolidated financial statements contain all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of our financial position as of September 30, 2020 and December 31, 2019, and our results of operations and cash flows for the three and nine-month periods ended September 30, 2020 and 2019. The results of operations for the three and nine-month periods ended September 30, 2020 and 2019 are not necessarily indicative of the results for a full-year period. Within the financial statements and tables presented, certain columns and rows may not total due to the use of rounded numbers for disclosure purposes. Percentages and earnings per share amounts presented are calculated from the underlying amounts. These interim consolidated financial statements should be read in conjunction with the financial statements and risk factors included in our Annual Report on Form 10-K for the year ended December 31, 2019 (as amended by an Amendment No. 1 to Annual Report on Form 10-K/A, the "Annual Report on Form 10-K").

*Reclassifications*

Certain reclassifications have been made to the 2019 periods to conform to the 2020 presentation. In the consolidated statements of cash flows for the nine months ended September 30, 2020, the fair value adjustment to contingent consideration is presented as a reconciling item between net income (loss) and cash flows from operating activities. A corresponding reclassification of approximately $3.6 million has been made in the prior period for comparability, along with corresponding reclassifications to the change in certain operating assets and liabilities.

*COVID-19 Pandemic*

The global coronavirus ("COVID-19") pandemic has created significant uncertainty in the global economy, has negatively impacted our business, results of operations and financial condition, and we anticipate that it may negatively impact our business, results of operations and financial condition for the foreseeable future. At present, it is not possible for us to predict the extent of this impact due to uncertainties regarding the duration of the pandemic, potential government mandates regarding elective or deferrable procedures, and patient behavior, among other factors.

In response to the COVID-19 pandemic, we implemented certain cost reduction and operating efficiency initiatives, including decreased discretionary spending, delayed product launches, deferred capital spending and reduced the number of research and development projects, among other initiatives. In April 2020, due to the significant impact of the COVID-19 pandemic on our business, results of operations and financial condition, and uncertainty regarding the scope and duration of that impact, we reduced headcount, implemented targeted furloughs and temporarily reduced salaries for a number of groups, including all executive positions. A number of these temporary salary reductions were decreased or eliminated during the three months ended September 30, 2020. We also implemented processes to encourage the safety of our employees, including formal policies restricting travel, temperature screenings at most of our manufacturing locations, and mandatory telecommuting for certain positions.

As the impact of the COVID-19 pandemic evolves, we will continue to assess that impact on our business and respond accordingly. Sustained adverse impacts to our business, our suppliers, and our customers may also affect our future valuation of certain assets and therefore may increase the likelihood of an impairment charge, write-off, or reserve associated with such assets, including goodwill, intangible assets, property and equipment, inventories, accounts receivable, tax assets, and other assets. Estimates may change as new events occur and additional information is obtained, and actual results will likely differ, and may differ materially, from our estimates under different assumptions, circumstances or conditions.

**2. Recently Issued Financial Accounting Standards.**

*Recently Adopted*

In August 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*, which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). ASU 2018-15 became effective for us on January 1, 2020. The adoption of this standard did not have a material impact on our consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820)*, which removes, modifies and adds various disclosure requirements related to fair value disclosures. ASU 2018-13 became effective for us beginning on January 1, 2020. We have modified our disclosures to conform with this guidance (see Note 14).

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which replaced the incurred loss impairment methodology for financial assets with a methodology that reflects expected credit losses. The new credit loss model must be applied to loans, accounts receivable, and other financial assets. ASU 2016-13 became effective for us beginning on January 1, 2020. We adopted this standard using a modified retrospective approach with a cumulative-effect adjustment to retained earnings of $575,000 as of the beginning of 2020. See Note 14 for additional disclosures related to our allowance for current expected credit losses. The adoption of this guidance did not have a material impact on our statements of operations or cash flows.

*Not Yet Adopted*

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which provides temporary optional expedients and exceptions in accounting for modifications of contracts that reference the London interbank offered rate ("LIBOR") or another reference rate expected to be discontinued as a result of reference rate reform. ASU 2020-04 is effective as of March 12, 2020 and may be applied prospectively to transactions through December 31, 2022. We are currently assessing the anticipated impact of this standard on our consolidated financial statements.

We currently believe that all other issued and not yet effective accounting standards are not materially relevant to our financial statements.

**3. Revenue from Contracts with Customers.** We recognize revenue when a customer obtains control of promised goods. The amount of revenue recognized reflects the consideration we expect to receive in exchange for these goods. Our revenue recognition policies have not changed from those disclosed in Note 1 to our consolidated financial statements in Item 8 of the Annual Report on Form 10-K.

*Disaggregation of Revenue*

The disaggregation of revenue is based on reporting segment, product category and geographical region. Beginning in the first quarter of 2020, we revised our product categories to more clearly reflect how we sell our products to our customers. We presented historical information under the new revised product categories in a Current Report on Form 8-K, filed with the SEC on April 3, 2020.

We design, develop, manufacture and market medical products for interventional and diagnostic procedures. For financial reporting purposes, we report our operations in two operating segments: cardiovascular and endoscopy. Our cardiovascular segment consists of four product categories: peripheral intervention, cardiac intervention, custom procedural solutions, and OEM. Within these product categories, we sell a variety of products, including cardiology and radiology devices (which assist in diagnosing and treating coronary arterial disease, peripheral vascular disease and other non-vascular diseases), as well as embolotherapeutic, cardiac rhythm management, electrophysiology, critical care, breast cancer

localization and guidance, biopsy, and interventional oncology and spine devices. Our endoscopy segment consists of gastroenterology and pulmonology devices which assist in the palliative treatment of expanding esophageal, tracheobronchial and biliary strictures caused by malignant tumors.

The following tables present revenue from contracts with customers by reporting segment, product category and geographical region for the three and nine-month periods ended September 30, 2020 and 2019 (in thousands):

| | Three Months Ended September 30, 2020 | | | Three Months Ended September 30, 2019 | | |
|---|---|---|---|---|---|---|
| | United States | International | Total | United States | International | Total |
| **Cardiovascular** | | | | | | |
| Peripheral Intervention | $ 55,014 | $ 31,764 | $ 86,778 | $ 55,587 | $ 28,678 | $ 84,265 |
| Cardiac Intervention | 28,661 | 40,428 | 69,089 | 29,657 | 45,202 | 74,859 |
| Custom Procedural Solutions | 32,048 | 24,381 | 56,429 | 24,906 | 21,352 | 46,258 |
| OEM | 20,293 | 3,824 | 24,117 | 25,521 | 3,523 | 29,044 |
| Total | 136,016 | 100,397 | 236,413 | 135,671 | 98,755 | 234,426 |
| **Endoscopy** | | | | | | |
| Endoscopy devices | 7,093 | 469 | 7,562 | 8,340 | 283 | 8,623 |
| Total | $ 143,109 | $ 100,866 | $ 243,975 | $ 144,011 | $ 99,038 | $ 243,049 |

| | Nine Months Ended September 30, 2020 | | | Nine Months Ended September 30, 2019 | | |
|---|---|---|---|---|---|---|
| | United States | International | Total | United States | International | Total |
| **Cardiovascular** | | | | | | |
| Peripheral Intervention | $ 153,431 | $ 93,057 | $ 246,488 | $ 167,158 | $ 90,586 | $ 257,744 |
| Cardiac Intervention | 79,954 | 127,731 | 207,685 | 85,817 | 141,225 | 227,042 |
| Custom Procedural Solutions | 80,845 | 68,524 | 149,369 | 73,871 | 65,464 | 139,335 |
| OEM | 67,566 | 13,026 | 80,592 | 75,425 | 12,024 | 87,449 |
| Total | 381,796 | 302,338 | 684,134 | 402,271 | 309,299 | 711,570 |
| **Endoscopy** | | | | | | |
| Endoscopy devices | 20,509 | 1,228 | 21,737 | 24,459 | 901 | 25,360 |
| Total | $ 402,305 | $ 303,566 | $ 705,871 | $ 426,730 | $ 310,200 | $ 736,930 |

**4. Acquisitions.** On August 1, 2019, we entered into a share purchase agreement to acquire Fibrovein Holdings Limited, which is the owner of 100% of the capital stock of STD Pharmaceutical Products Limited, a UK private company engaged in the manufacture, distribution and sale of pharmaceutical sclerotherapy products ("STD Pharmaceutical"). The purchase consideration consisted of an upfront payment of approximately $13.7 million, net of cash acquired. We also recorded a contingent consideration liability of approximately $934,000 related to royalties potentially payable pursuant to the terms of the share purchase agreement. We accounted for this acquisition as a business combination. The sales and results of operations related to the acquisition have been included in our cardiovascular segment since the acquisition date and were not material. Acquisition-related costs associated with the STD Pharmaceutical acquisition, which were included in selling, general and administrative expenses, were not material. The following table summarizes the purchase price allocated to the net assets acquired as follows (in thousands):

| | | |
|---|---|---|
| **Assets Acquired** | | |
| Trade receivables | $ | 277 |
| Inventories | | 843 |
| Prepaid expenses and other assets | | 49 |
| Intangible assets | | |
| Developed technology | | 10,428 |
| Goodwill | | 4,975 |
| Total assets acquired | | 16,572 |
| | | |
| **Liabilities Assumed** | | |
| Trade payables | | (53) |
| Accrued expenses | | (29) |
| Deferred income tax liabilities | | (1,890) |
| Total liabilities assumed | | (1,972) |
| | | |
| **Total net assets acquired** | **$** | **14,600** |

We are amortizing the developed technology intangible asset acquired in the STD Pharmaceutical acquisition over 12 years. The goodwill consists largely of the synergies we hope to achieve from combining operations and is not expected to be deductible for income tax purposes.

On June 14, 2019, we consummated an acquisition transaction contemplated by a merger agreement to acquire Brightwater Medical, Inc. ("Brightwater"). The purchase consideration consisted of an upfront payment of $35 million plus a final working capital adjustment of approximately $39,000, net of cash acquired, with potential earn-out payments of up to an additional $5 million for achievement of CE certification with respect to the Brightwater ConvertX®, a single-use device used to replace a series of devices and procedures used to treat severe obstructions of the ureter, and up to an additional $10 million for the achievement of sales milestones specified in the merger agreement. The ConvertX device is designed to be implanted once and converted from a nephroureteral catheter to a nephroureteral stent without requiring sedation or local anesthesia. Earlier this year, Brightwater received FDA clearance for the ConvertX biliary stent device. We accounted for this acquisition as a business combination. The sales and results of operations related to the acquisition have been included in our cardiovascular segment since the acquisition date and were not material. Acquisition-related costs

associated with the Brightwater acquisition, which were included in selling, general and administrative expenses, were not material. The following table summarizes the purchase price allocated to the net assets acquired as follows (in thousands):

| | |
|---|---|
| **Assets Acquired** | |
| Trade receivables | $ 55 |
| Inventories | 349 |
| Property and equipment | 409 |
| Other long-term assets | 30 |
| Intangible assets | |
| Developed technology | 31,960 |
| Customer lists | 83 |
| Trademarks | 250 |
| Goodwill | 17,607 |
| Total assets acquired | 50,743 |
| | |
| **Liabilities Assumed** | |
| Trade payables | (58) |
| Accrued expenses | (261) |
| Other long-term obligations | (1,522) |
| Deferred income tax liabilities | (4,263) |
| Total liabilities assumed | (6,104) |
| | |
| **Total net assets acquired** | **$ 44,639** |

We are amortizing the developed technology intangible asset acquired in the Brightwater acquisition over 13 years, the related trademarks over five years and the customer list on an accelerated basis over one year. The total weighted-average amortization period for these acquired intangible assets is approximately 12.9 years. The goodwill consists largely of the synergies and economies of scale we hope to achieve from combining the acquired assets and operations with our historical operations and is not expected to be deductible for income tax purposes.

The pro forma impact of these acquisitions was not significant, either individually or in the aggregate, on our financial results for the three and nine-month periods ended September 30, 2019. Operating results attributable to the STD Pharmaceutical and Brightwater acquisitions were included in our consolidated statements of income (loss) for the three and nine-month periods ended September 30, 2020.

**5. Inventories.** Inventories at September 30, 2020 and December 31, 2019 consisted of the following (in thousands):

| | September 30, 2020 | December 31, 2019 |
|---|---|---|
| Finished goods | $ 114,710 | $ 134,467 |
| Work-in-process | 23,765 | 17,602 |
| Raw materials | 70,634 | 73,629 |
| Total inventories | $ 209,109 | $ 225,698 |

**6. Goodwill and Intangible Assets.** The changes in the carrying amount of goodwill for the nine-month period ended September 30, 2020 were as follows (in thousands):

| | 2020 |
|---|---|
| Goodwill balance at January 1 | $ 353,193 |
| Effect of foreign exchange | 314 |
| Additions and adjustments as the result of acquisitions | 115 |
| Goodwill balance at September 30 | $ 353,622 |

Total accumulated goodwill impairment losses aggregated to approximately $8.3 million as of September 30, 2020 and December 31, 2019. We did not have any goodwill impairments for the nine-month periods ended September 30, 2020 and 2019. The total goodwill balance as of September 30, 2020 and December 31, 2019 was related to our cardiovascular segment.

Other intangible assets at September 30, 2020 and December 31, 2019 consisted of the following (in thousands):

| | September 30, 2020 | | |
|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Patents | $ 25,202 | $ (8,320) | $ 16,882 |
| Distribution agreements | 3,250 | (2,269) | 981 |
| License agreements | 14,425 | (6,244) | 8,181 |
| Trademarks | 30,257 | (11,675) | 18,582 |
| Customer lists | 34,743 | (28,405) | 6,338 |
| Total | $ 107,877 | $ (56,913) | $ 50,964 |

| | December 31, 2019 | | |
|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Patents | $ 22,703 | $ (6,863) | $ 15,840 |
| Distribution agreements | 8,012 | (6,794) | 1,218 |
| License agreements | 26,987 | (12,746) | 14,241 |
| Trademarks | 30,240 | (9,477) | 20,763 |
| Covenants not to compete | 964 | (964) | — |
| Customer lists | 39,984 | (28,763) | 11,221 |
| In-process technology | 2,500 | — | 2,500 |
| Total | $ 131,390 | $ (65,607) | $ 65,783 |

Aggregate amortization expense for the three and nine-month periods ended September 30, 2020 was approximately $14.4 million and $44.2 million, respectively. Aggregate amortization expense for the three and nine-month periods ended September 30, 2019 was approximately $15.5 million and $45.2 million, respectively.

We evaluate long-lived assets, including amortizing intangible assets, for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. We perform the impairment analysis at the asset group for which the lowest level of identifiable cash flows is largely independent of the cash flows of other assets and liabilities. We determine the fair value of our amortizing assets based on estimated future cash flows discounted back to their present value using a discount rate that reflects the risk profiles of the underlying activities.

We recorded total impairment charges associated with intangible assets in our cardiovascular segment for the three and nine-month periods ended September 30, 2020 of approximately $18.1 million and $20.5 million, respectively. These expenses are reflected within impairment charges in our consolidated statements of income (loss). The primary factors driving impairment of certain intangible assets for the three and nine-month periods ended September 30, 2020 were slower-than-anticipated sales growth in the acquired products, planned closure and restructuring activities, uncertainty about future product development and commercialization associated with the acquired technologies, and economic uncertainties associated with the COVID-19 pandemic. The intangible impairment charges relate to a write-off or reduction in value of intangible assets from our August 2017 acquisition of certain assets from Laurane Medical S.A.S, our license agreements with ArraVasc Limited, intangible assets from our May 2018 acquisition of certain assets from DirectACCESS Medical, LLC, in-process technology intangible assets of Sontina Medical LLC we acquired in connection our February 2018 acquisition of certain divested assets from Becton, Dickinson and Company, and a customer list intangible asset from our October 2017 acquisition of ITL Healthcare Pty Ltd (“ITL”).

We recorded intangible asset impairment charges in our cardiovascular segment for the three and nine-month periods ended September 30, 2019 of approximately $2.7 million and $3.3 million, respectively. These expenses are reflected within impairment charges in our consolidated statements of income (loss). The primary indicators of impairment for the

three and nine-month periods ended September 30, 2020 were slower than anticipated sales growth in the acquired products and uncertainty about future product development and commercialization associated with the acquired technologies. The intangible impairment charges related to our amortizing intangible assets from our July 2015 acquisition of certain assets from Distal Access, LLC, our June 2016 acquisition of certain assets from Lazarus Medical Technologies, LLC, and our July 2017 acquisition of certain assets from Pleuratech ApS.

Estimated amortization expense for the developed technology and other intangible assets for the next five years consists of the following as of September 30, 2020 (in thousands):

| Year Ending December 31, | Estimated Amortization Expense |
|---|---|
| Remaining 2020 | $ 14,317 |
| 2021 | 49,611 |
| 2022 | 48,463 |
| 2023 | 47,306 |
| 2024 | 44,514 |

**7. Income Taxes.** Our provision for income taxes for the three-month periods ended September 30, 2020 and 2019 was a tax expense (benefit) of approximately $0.8 million and $(2.3) million, respectively, which resulted in an effective tax rate of (37.7)% and 40.3%, respectively. Our provision for income taxes for the nine-month periods ended September 30, 2020 and 2019 was a tax expense (benefit) of approximately $(1.3) million and $0.5 million, respectively, which resulted in an effective tax rate of 4.7% and 4.9%, respectively. The income tax expense and corresponding decrease in the effective tax rate for the three-month period ended September 30, 2020, when compared to the prior-year period, was due to a change in the jurisdictional mix of earnings. The income tax benefit and corresponding decrease in the effective tax rate for the nine-month period ended September 30, 2020, when compared to the prior-year period, was primarily due to a pre-tax loss during the 2020 period, as well as a change in the jurisdictional mix of earnings. Our effective tax rate differs from the U.S. statutory rate for both the three and nine-month periods ended September 30, 2020 primarily due to the impact of global intangible low-taxed income (“GILTI”) inclusions, state income taxes, foreign taxes, other non-deductible permanent items and discrete items (such as share-based compensation and certain legal settlements).

**8. Revolving Credit Facility and Long-Term Debt.** Principal balances outstanding under our long-term debt obligations as of September 30, 2020 and December 31, 2019 consisted of the following (in thousands):

| | September 30, 2020 | December 31, 2019 |
|---|---|---|
| Term loans | $ 142,500 | $ 148,125 |
| Revolving credit loans | 215,244 | 291,875 |
| Less unamortized debt issuance costs | (431) | (516) |
| Total long-term debt | 357,313 | 439,484 |
| Less current portion | 7,500 | 7,500 |
| Long-term portion | $ 349,813 | $ 431,984 |

*Third Amended and Restated Credit Agreement*

On July 31, 2019, we entered into a Third Amended and Restated Credit Agreement (the "Third Amended Credit Agreement"). The Third Amended Credit Agreement is a syndicated loan agreement with Wells Fargo Bank, National Association and other parties. The Third Amended Credit Agreement amends and restates in its entirety our previously outstanding Second Amended and Restated Credit Agreement and all amendments thereto. The Third Amended Credit Agreement provides for a term loan of $150 million and a revolving credit commitment up to an aggregate amount of $600 million, inclusive of sub-facilities for multicurrency borrowings, standby letters of credit and swingline loans. On July 31, 2024, all principal, interest and other amounts outstanding under the Third Amended Credit Agreement are payable in full. At any time prior to the maturity date, we may repay any amounts owing under all term loans and revolving credit loans in whole or in part, without premium or penalty, other than breakage fees (as defined in the Third Amended Credit Agreement).

Revolving credit loans denominated in dollars and term loans made under the Third Amended Credit Agreement bear interest, at our election, at either the Base Rate or the Eurocurrency Rate (as such terms are defined in the Third Amended Credit Agreement) plus the Applicable Margin (as defined in the Third Amended Credit Agreement). Revolving credit loans denominated in an Alternative Currency (as defined in the Third Amended Credit Agreement) bear interest at the Eurocurrency Rate plus the Applicable Margin. Swingline loans bear interest at the Base Rate plus the Applicable Margin (as defined in the Third Amended Credit Agreement). Interest on each Base Rate loan is due and payable on the last business day of each calendar quarter; interest on each Eurocurrency Rate loan is due and payable on the last day of each interest period applicable thereto, and if such interest period extends over three months, at the end of each three-month interval during such interest period.

The Third Amended Credit Agreement is collateralized by substantially all our assets. The Third Amended Credit Agreement contains affirmative and negative covenants, representations and warranties, events of default and other terms customary for loans of this nature. In particular, the Third Amended Credit Agreement requires that we maintain certain financial covenants, as follows:

| | Covenant Requirement |
|---|---|
| Consolidated Total Leverage Ratio [1] | 4.0 to 1.0 |
| Consolidated Interest Coverage Ratio [2] | 3.0 to 1.0 |
| Facility Capital Expenditures [3] | $50 million |

(1) Maximum Consolidated Total Net Leverage Ratio (as defined in the Third Amended Credit Agreement) as of any fiscal quarter end.
(2) Minimum ratio of Consolidated EBITDA (as defined in the Third Amended Credit Agreement and adjusted for certain expenditures) to Consolidated interest expense (as defined in the Third Amended Credit Agreement) for any period of four consecutive fiscal quarters.
(3) Maximum level of the aggregate amount of all Facility Capital Expenditures (as defined in the Third Amended Credit Agreement) in any fiscal year.

We believe we were in compliance with all covenants set forth in the Third Amended Credit Agreement as of September 30, 2020.

As of September 30, 2020, we had outstanding borrowings of approximately $357.7 million under the Third Amended Credit Agreement, with additional available borrowings of approximately $327 million, based on the net leverage ratio required pursuant to the Third Amended Credit Agreement. Our interest rate as of September 30, 2020 was a fixed rate of 2.62% on $175 million as a result of an interest rate swap (see Note 9) and a variable floating rate of 1.66% on $182.7 million. Our interest rate as of December 31, 2019 was a fixed rate of 2.62% on $175 million as a result of an interest rate swap and a variable floating rate of 3.30% on $265 million. The foregoing fixed rates are exclusive of changes in the notional amount and fixed rate associated with our interest rate swaps beginning July 6, 2021 as described in Note 9 and potential future changes in the applicable margin.

Future minimum principal payments on our long-term debt as of September 30, 2020, were as follows (in thousands):

| Years Ending December 31, | Future Minimum Principal Payments |
|---|---|
| Remaining 2020 | $ 1,875 |
| 2021 | 7,500 |
| 2022 | 8,438 |
| 2023 | 11,250 |
| 2024 | 328,681 |
| Total future minimum principal payments | $ 357,744 |

**9. Derivatives.**

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

We formally document, designate and assess the effectiveness of transactions that receive hedge accounting treatment initially and on an ongoing basis. For qualifying hedges, the change in fair value is deferred in accumulated other comprehensive income, a component of stockholders' equity in the accompanying consolidated balance sheets, and recognized in earnings at the same time the hedged item affects earnings. Changes in the fair value of derivatives not designated as hedging instruments are recorded in earnings throughout the term of the derivative.

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

*Derivative Instruments Designated as Cash Flow Hedges*

On August 5, 2016, we entered into a pay-fixed, receive-variable interest rate swap with a current notional amount of $175 million with Wells Fargo to fix the one-month LIBOR rate at 1.12%. The variable portion of the interest rate swap is tied to the one-month LIBOR rate (the benchmark interest rate). On a monthly basis, the interest rates under both the interest rate swap and the underlying debt reset, the swap is settled with the counterparty, and interest is paid. The interest rate swap is scheduled to expire on July 6, 2021.

On December 23, 2019, we entered into a pay-fixed, receive-variable interest rate swap with a notional amount of $75 million with Wells Fargo to fix the one-month LIBOR rate at 1.71% for the period from July 6, 2021 to July 31, 2024. The variable portion of the interest rate swap is tied to the one-month LIBOR rate (the benchmark interest rate). On a monthly basis, the interest rates under both the interest rate swap and the underlying debt will reset, the swap will be settled with the counterparty, and interest will be paid.

At September 30, 2020 and December 31, 2019, our interest rate swaps qualified as cash flow hedges. The fair value of our interest rate swaps at September 30, 2020 was a liability of approximately $4.9 million, which was partially offset by approximately $1.3 million in deferred taxes. The fair value of our interest rate swaps at December 31, 2019 was an asset of approximately $1.2 million, partially offset by approximately $307,000 in deferred taxes, and a liability of $(290,000), partially offset by approximately $(75,000) in deferred taxes.

**Foreign Currency Risk.** We operate on a global basis and are exposed to the risk that our financial condition, results of operations, and cash flows could be adversely affected by changes in foreign currency exchange rates. To reduce the potential effects of foreign currency exchange rate movements on net earnings, we enter into derivative financial instruments in the form of foreign currency exchange forward contracts with major financial institutions. Our policy is to enter into foreign currency derivative contracts with maturities of up to two years. We are primarily exposed to foreign currency exchange rate risk with respect to transactions and balances denominated in Chinese Renminbi, Euros, British Pounds, Mexican Pesos, Brazilian Reals, Australian Dollars, Hong Kong Dollars, Swiss Francs, Swedish Krona, Canadian Dollars, Danish Krone, Japanese Yen, and South Korean Won, among others. We do not use derivative financial instruments for trading or speculative purposes. We do not believe we are subject to any credit risk contingent features related to our derivative contracts, and we seek to manage counterparty risk by allocating derivative contracts among several major financial institutions.

*Derivative Instruments Designated as Cash Flow Hedges*

For derivative instruments that are designated and qualify as cash flow hedges, the gain or loss on the derivative instrument is temporarily reported as a component of other comprehensive income (loss) and then reclassified into earnings in the same line item associated with the forecasted transaction and in the same period or periods during which the hedged transaction affects earnings. We entered into forward contracts on various foreign currencies to manage the risk associated with forecasted exchange rates which impact revenues, cost of sales, and operating expenses in various international markets. The objective of the hedges is to reduce the variability of cash flows associated with the forecasted purchase or sale of the associated foreign currencies.

We enter into approximately 150 cash flow foreign currency hedges every month. As of September 30, 2020 and December 31, 2019 we had entered into foreign currency forward contracts, which qualified as cash flow hedges, with aggregate notional amounts of approximately $139.6 million and $212.5 million, respectively.

*Derivative Instruments Not Designated as Cash Flow Hedges*

We forecast our net exposure in various receivables and payables to fluctuations in the value of various currencies, and we enter into foreign currency forward contracts to mitigate that exposure. We enter into approximately 20 foreign currency fair value hedges every month. As of September 30, 2020 and December 31, 2019 we had entered into foreign currency forward contracts related to those balance sheet accounts with aggregate notional amounts of $80.3 million and $65.0 million, respectively.

**Balance Sheet Presentation of Derivative Instruments.** As of September 30, 2020 and December 31, 2019, all derivative instruments, both those designated as hedging instruments and those that were not designated as hedging instruments, were recorded at fair value on a gross basis on our consolidated balance sheets. We are not subject to any master netting agreements.

The fair value of derivative instruments on a gross basis was as follows on the dates indicated (in thousands):

| | | Fair Value | |
|---|---|---|---|
| ***Derivative instruments designated as hedging instruments*** | **Balance Sheet Location** | **September 30, 2020** | **December 31, 2019** |
| *Assets* | | | |
| Interest rate swaps | Other assets (long-term) | $ — | $ 1,192 |
| Foreign currency forward contracts | Prepaid expenses and other assets | 872 | 1,663 |
| Foreign currency forward contracts | Other assets (long-term) | 139 | 466 |
| | | | |
| *(Liabilities)* | | | |
| Interest rate swaps | Accrued expenses | (1,322) | — |
| Interest rate swaps | Other long-term obligations | (3,593) | (290) |
| Foreign currency forward contracts | Accrued expenses | (2,899) | (1,813) |
| Foreign currency forward contracts | Other long-term obligations | (254) | (764) |
| | | | |
| ***Derivative instruments not designated as hedging instruments*** | | | |
| *Assets* | | | |
| Foreign currency forward contracts | Prepaid expenses and other assets | $ 1,314 | $ 318 |
| | | | |
| *(Liabilities)* | | | |
| Foreign currency forward contracts | Accrued expenses | (1,066) | (1,678) |

**Income Statement Presentation of Derivative Instruments.**

*Derivative Instruments Designated as Cash Flow Hedges*

Derivative instruments designated as cash flow hedges had the following effects, before income taxes, on other comprehensive income ("OCI"), accumulated other comprehensive income ("AOCI"), and net earnings in our consolidated statements of income (loss), consolidated statements of comprehensive income (loss) and consolidated balance sheets (in thousands):

| | Amount of Gain/(Loss) Recognized in OCI | | | Consolidated Statements of Income (Loss) | | Amount of Gain/(Loss) Reclassified from AOCI | |
|---|---|---|---|---|---|---|---|
| | Three Months Ended September 30, | | | Three Months Ended September 30, | | Three Months Ended September 30, | |
| Derivative instrument | 2020 | 2019 | Location in statements of income | 2020 | 2019 | 2020 | 2019 |
| *Interest rate swaps* | $ (30) | $ (186) | *Interest expense* | $ (2,197) | $ (3,415) | $ (425) | $ 520 |
| *Foreign currency forward contracts* | (1,324) | 505 | *Revenue* | 243,975 | 243,049 | 157 | 118 |
| | | | *Cost of sales* | (141,961) | (138,913) | (494) | (112) |

| | Amount of Gain/(Loss) Recognized in OCI | | | Consolidated Statements of Income (Loss) | | Amount of Gain/(Loss) Reclassified from AOCI | |
|---|---|---|---|---|---|---|---|
| | Nine Months Ended September 30, | | | Nine Months Ended September 30, | | Nine Months Ended September 30, | |
| Derivative instrument | 2020 | 2019 | Location in statements of income | 2020 | 2019 | 2020 | 2019 |
| *Interest rate swaps* | $ (6,256) | $ (2,855) | *Interest expense* | $ (8,056) | $ (9,295) | $ (439) | $ 1,716 |
| *Foreign currency forward contracts* | (2,596) | 555 | *Revenue* | 705,871 | 736,930 | 666 | 220 |
| | | | *Cost of sales* | (415,857) | (416,194) | (1,204) | (298) |

As of September 30, 2020, approximately $(2.3) million, or $(1.7) million after taxes, was expected to be reclassified from accumulated other comprehensive income (loss) to earnings in revenue and cost of sales over the succeeding twelve months. As of September 30, 2020, approximately $(1.6) million, or $(1.2) million after taxes, was expected to be reclassified from accumulated other comprehensive income (loss) to earnings in interest expense over the succeeding twelve months.

*Derivative Instruments Not Designated as Hedging Instruments*

The following gains/(losses) from these derivative instruments were recognized in our consolidated statements of income (loss) for the periods presented (in thousands):

| | | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|---|
| Derivative Instrument | Location in statements of income (loss) | 2020 | 2019 | 2020 | 2019 |
| *Foreign currency forward contracts* | Other income (expense) | $ (1,294) | $ 2,402 | $ 1,051 | $ 1,647 |

**10. Commitments and Contingencies.**

**Loan Commitment.** On October 11, 2019, we acquired shares of stock in Selio Medical Limited ("Selio") representing an ownership interest of approximately 19.5%, as well as an option to purchase all ordinary shares of Selio throughout a 45 day period commencing from the date Selio receives FDA 510(k) approval of a medical device it is currently developing, and an option to purchase all remaining shares of Selio on the third anniversary date of the agreement if we elect to purchase all ordinary shares. We have also made a loan of $250,000 to Selio and committed to provide additional loans of up to €2 million at a rate of 5% per annum. Additional loans made to Selio pursuant to our loan agreement, together with the initial advance and all other amounts owed to us by Selio, would be securitized by Selio's assets.

**Litigation.** In the ordinary course of business, we are involved in various proceedings, legal actions and claims. These proceedings, actions and claims may involve product liability, intellectual property, contract disputes, employment, governmental inquiries or other matters, including those more fully described below. The outcomes of these matters will generally not be known for prolonged periods of time. In certain proceedings, the claimants may seek damages as well as other compensatory and equitable relief that could result in the payment of significant claims and settlements and/or the imposition of injunctions or other equitable relief. For legal matters for which our management had sufficient information to reasonably estimate our future obligations, a liability representing management's best estimate of the probable loss, or the minimum of the range of probable losses when a best estimate within the range is not known, is recorded. The estimates are based on consultation with legal counsel, previous settlement experience and settlement strategies. If actual outcomes are less favorable than those estimated by management, additional expense may be incurred, which could unfavorably affect our financial position, results of operations and cash flows. The ultimate cost to us with respect to product liability claims could be materially different than the amount of the current estimates and accruals and could have a material adverse effect on our financial position, results of operations and cash flows.

*Securities Litigation*

On December 3, 2019, the Bucks County Employees Retirement Fund filed a complaint against Merit, our Chief Executive Officer and our Chief Financial Officer in the United States District Court for the Central District of California, individually and on behalf of all purchasers of our common stock between February 26, 2019 and October 30, 2019. On February 24, 2020, the court appointed the City of Atlanta Police Pension Fund, the Atlanta Firefighters' Pension Fund, and the Employees' Retirement System of the City of Baton Rouge and Parish of East Baton Rouge as Lead Plaintiffs. This action is now captioned In re Merit Medical Systems, Inc. Securities Litigation (Master File No. 8:19-cv-02326-DOC-ADS). On June 30, 2020, Lead Plaintiffs filed a consolidated class action complaint for violations of federal securities laws against Merit, our Chief Executive Officer and our Chief Financial Officer in the United States District Court for the Central District of California, individually and on behalf of all purchasers of our common stock between February 26, 2019 and October 30, 2019. The consolidated class action complaint alleges that defendants violated Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5 promulgated thereunder, and seeks unspecified damages, costs and attorneys' fees, and equitable relief. We intend to vigorously defend against the lawsuit and have filed a motion to dismiss the action. We have not recorded an expense related to this matter because any potential loss is not currently probable or reasonably estimable. Additionally, we cannot presently estimate the range of loss, if any, that may result from the matter. It is possible that the ultimate resolution of the foregoing matter, or other similar matters, if resolved in a manner unfavorable to us, may be materially adverse to our business, financial condition, results of operations or liquidity.

*Department of Justice Investigation*

In October 2016, we received a subpoena from the U.S. Department of Justice (the "DOJ") seeking information related to its investigation of certain of our marketing and promotional practices. We responded to the subpoena, as well as additional related requests, and on October 13, 2020, we entered into agreements with the DOJ and others to fully resolve the DOJ's investigation. We denied the DOJ's allegations, but determined that avoiding protracted litigation and its associated costs would enable us to focus on our mission of being the most customer-focused company in healthcare. Legal expenses we incurred in responding to the DOJ investigation for the three and nine-month periods ended September 30, 2020 were approximately $1.4 million and $4.6 million, respectively.

Legal costs for these matters, such as outside counsel fees and expenses, are charged to expense in the period incurred.

**11. Earnings (Loss) Per Common Share (EPS).** The computation of weighted average shares outstanding and the basic and diluted earnings (loss) per common share consisted of the following (in thousands, except per share amounts):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Net income (loss) | $ (3,009) | $ (3,398) | $ (25,221) | $ 9,656 |
| Average common shares outstanding | 55,505 | 55,152 | 55,386 | 55,029 |
| Basic EPS | $ (0.05) | $ (0.06) | $ (0.46) | $ 0.18 |
| | | | | |
| Average common shares outstanding | 55,505 | 55,152 | 55,386 | 55,029 |
| Effect of dilutive stock options [1] | — | — | — | 1,364 |
| Total potential shares outstanding | 55,505 | 55,152 | 55,386 | 56,393 |
| Diluted EPS | $ (0.05) | $ (0.06) | $ (0.46) | $ 0.17 |
| | | | | |
| Stock options excluded as the impact was anti-dilutive[1] | 4,044 | 4,299 | 4,202 | 1,361 |

(1) For the three and nine-month periods ended September 30, 2020, approximately 2.2 million and 2.2 million stock options, respectively, were considered antidilutive due to the net loss in each period. Independent of the net loss incurred, the potentially dilutive effect of these options would have been approximately 951,000 and 855,000 shares, respectively. For the three-month period ended September 30, 2019, approximately 2.4 million stock options were considered antidilutive due to the net loss in the period. Independent of the net loss incurred, the potentially dilutive effect of these options would have been approximately 979,000 shares.

**12. Stock-Based Compensation Expense.** Stock-based compensation expense before income tax expense for the three and nine-month periods ended September 30, 2020 and 2019 consisted of the following (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Cost of sales | $ 336 | $ 346 | $ 1,022 | $ 953 |
| Research and development | 304 | 277 | 851 | 750 |
| Selling, general and administrative | 3,423 | 2,003 | 8,395 | 5,212 |
| Stock-based compensation expense before taxes | $ 4,063 | $ 2,626 | $ 10,268 | $ 6,915 |

*Nonqualified Stock Options*

During the three and nine-month periods ended September 30, 2020, we granted stock options representing 112,500 and 328,994 shares of our common stock, respectively. During the three and nine-month periods ended September 30, 2019, we granted stock options representing 107,000 and 1.2 million shares of our common stock, respectively. We use the Black-Scholes methodology to value the stock-based compensation expense for options. In applying the Black-Scholes

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

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2020 | 2019 |
| Risk-free interest rate | 0.29% - 1.67% | 1.39% - 2.56% |
| Expected option term | 4.0 - 5.0 years | 3.0 - 5.0 years |
| Expected dividend yield | — | — |
| Expected price volatility | 38.65% - 45.12% | 28.66% - 35.79% |

The average risk-free interest rate is determined using the U.S. Treasury rate in effect as of the date of grant, based on the expected term of the stock award. We determine the expected term of the stock options using the historical exercise behavior of employees. The expected price volatility was determined using a weighted average of daily historical volatility of our stock price over the corresponding expected option term and implied volatility based on recent trends of the daily historical volatility. For awards with a vesting period, compensation expense is recognized on a straight-line basis over the service period, which corresponds to the vesting period.

We recognize stock-based compensation expense (net of a forfeiture rate) for those awards which are expected to vest on a straight-line basis over the requisite service period. We estimate the forfeiture rate based on our historical experience and expectations about future forfeitures. As of September 30, 2020, the total remaining unrecognized compensation cost related to non-vested stock options was approximately $25.0 million, which was expected to be recognized over a weighted average period of 2.8 years.

*Stock-Settled Performance-Based Restricted Stock Units (“Performance Stock Units”)*

During the nine-month period ended September 30, 2020, we granted performance stock units to certain of our executive officers which, as amended, represent up to 127,060 shares of our common stock. Conversion of the performance stock units occurs at the end of one, two and three-year performance periods, or one year after the agreement date, whichever is later. The conversion ratio is based upon attaining targeted levels of free cash flow (“FCF”) and relative shareholder return as compared to the Russell 2000 Index (“rTSR”), as defined in the award agreements. After reviewing the anticipated impact of the COVID-19 pandemic on our ongoing and forecasted operations and financial performance, during the three-month period ended June 30, 2020, our Board of Directors amended the performance stock units with a one-year performance period in an effort to more closely align our executive management compensation with the interests of our shareholders. This amendment reduced the targeted levels of FCF and reduced the maximum FCF multiplier to 100% for the one-year awards, which lowered the potential shares of our common stock to be granted pursuant to the one-year awards by 25,415 shares. We have accounted for this amendment in accordance with ASC 718 as a “Type I” modification. The two and three-year performance stock units were not amended.

The payout for each performance stock unit is equal to one share of common stock multiplied by a FCF multiplier (between 0% and 100% in the case of the one-year awards, as amended, or 0% and 200% in the case of the two and three-year awards) and a rTSR multiplier (between 75% and 125%). If FCF is below a specified threshold, no shares will be awarded. The potential maximum payout per performance stock units is 125% of the target shares for the one-year awards, as amended, and 250% of the target shares for the two and three-year awards. Performance stock units convey no shareholder rights, including voting rights, unless and until shares are issued in settlement of the award. As performance stock units represent contingently issuable shares, we have excluded them from the calculation of weighted average shares outstanding for the calculation of diluted EPS.

We use Monte-Carlo simulations to estimate the grant-date fair value of the performance stock units linked to total shareholder return. The fair value of each performance stock unit was estimated as of the grant date using the following assumptions for awards granted in the periods indicated below:

| | Nine Months Ended September 30, 2020 |
|---|---|
| Risk-free interest rate | 1.1% - 1.3% |
| Performance period | 0.8 - 2.8 years |
| Expected dividend yield | — |
| Expected price volatility | 40.2% - 56.1% |

The risk-free interest rate of return was determined using the U.S. Treasury rate at the time of grant with a remaining term equal to the expected term of the award. The expected volatility was based on a weighted average volatility of our stock price and the average volatility of our compensation peer group's volatilities. The expected dividend yield was assumed to be zero because, at the time of the grant, we had no plans to declare a dividend.

Compensation expense is recognized using the grant-date fair value for the number of shares that are probable of being awarded based on the performance conditions. Each reporting period, this probability assessment is updated, and cumulative catchups are recorded based on the level of FCF that is expected to be achieved. At the end of the performance period, cumulative expense is calculated based on the actual level of FCF achieved. For the three and nine-month periods ended September 30, 2020, we recognized stock-based compensation expense associated with the stock-settled performance stock units of approximately $0.8 million and $2.0 million, respectively. As of September 30, 2020, the total remaining unrecognized compensation cost related to stock-settled performance stock units was approximately $3.3 million, which is expected to be recognized over a weighted average period of 1.5 years.

*Cash-Settled Performance-Based Share-Based Awards (“Liability Awards”)*

During the nine-month period ended September 30, 2020, we granted liability awards to our Chief Executive Officer. These awards entitle him to a cash payment equal to a target cash incentive of $333,333 per year multiplied by rTSR and FCF multipliers, as defined in the award agreements. During the three-month period ended June 30, 2020, after reviewing the anticipated impact of the COVID-19 pandemic on our ongoing and forecasted operations and financial performance, our Board of Directors amended the liability awards with a one-year performance period in an effort to more closely align our Chief Executive Officer’s compensation with the interests of our shareholders. The two and three-year liability awards were not amended. As amended, the potential maximum payout of these awards is 125% of the target cash incentive for one-year awards, and 250% of the target cash incentive for two and three-year awards. Settlement generally occurs at the end of one, two and three-year performance periods based upon the same performance metrics and vesting period as our performance stock units.

For the three and nine-month periods ended September 30, 2020, we recognized expense associated with these liability awards of approximately $0.3 million and $0.6 million within selling, general and administrative expenses in our consolidated statement of income (loss). The fair value of these awards will be remeasured at each reporting period until the awards are settled. These awards are classified as liabilities and reported in accrued expenses and other long-term liabilities within our consolidated balance sheet. As of September 30, 2020, the total remaining unrecognized compensation cost related to cash-settled performance-based share-based awards was approximately $1.3 million, which is expected to be recognized over a weighted average period of 1.6 years.

*Restricted Stock Units*

On June 22, 2020, we granted restricted stock units to our non-employee directors representing 33,504 shares of our common stock. The expense recognized for restricted stock units is equal to the closing stock price on the date of grant, which is recognized over the vesting period. Restricted stock units are subject to continued service through the vesting date, which is one year from the date of grant. Restricted stock units represent contingently issuable shares, and are excluded from the calculation of weighted average shares outstanding for the calculation of diluted EPS. For the three and nine-month periods ended September 30, 2020 we recognized expense associated with these restricted stock units of

approximately $363,000 and $395,000 within selling, general and administrative expenses in our consolidated statement of income (loss). As of September 30, 2020, the total remaining unrecognized compensation cost related to restricted stock units was approximately $1.0 million, which will be recognized over the remaining vesting period.

**13. Segment Reporting.** We report our operations in two operating segments: cardiovascular and endoscopy. Our cardiovascular segment consists of four product categories: peripheral intervention, cardiac intervention, custom procedural solutions, and OEM. Within these product categories, we sell a variety of products, including cardiology and radiology devices (which assist in diagnosing and treating coronary arterial disease, peripheral vascular disease and other non-vascular diseases), as well as embolotherapeutic, cardiac rhythm management, electrophysiology, critical care, breast cancer localization and guidance, biopsy, and interventional oncology and spine devices. Our endoscopy segment consists of gastroenterology and pulmonology devices which assist in the palliative treatment of expanding esophageal, tracheobronchial and biliary strictures caused by malignant tumors. We evaluate the performance of our operating segments based on net sales and operating income.

Financial information relating to our reportable operating segments and reconciliations to the consolidated totals for the three and nine-month periods ended September 30, 2020 and 2019, were as follows (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| **Net Sales** | | | | |
| Cardiovascular | $ 236,413 | $ 234,426 | $ 684,134 | $ 711,570 |
| Endoscopy | 7,562 | 8,623 | 21,737 | 25,360 |
| Total net sales | 243,975 | 243,049 | 705,871 | 736,930 |
| | | | | |
| **Operating Income (Loss)** | | | | |
| Cardiovascular | (1,702) | (6,210) | (20,662) | 11,263 |
| Endoscopy | 1,766 | 3,329 | 3,093 | 7,581 |
| Total operating income (loss) | 64 | (2,881) | (17,569) | 18,844 |
| | | | | |
| Total other expense - net | (2,248) | (2,809) | (8,907) | (8,689) |
| | | | | |
| Income tax (benefit) expense | 825 | (2,292) | (1,255) | 499 |
| | | | | |
| Net income (loss) | $ (3,009) | $ (3,398) | $ (25,221) | $ 9,656 |

**14. Fair Value Measurements.**

**Assets (Liabilities) Measured at Fair Value on a Recurring Basis**

Our financial assets and (liabilities) carried at fair value and measured on a recurring basis as of September 30, 2020 and December 31, 2019 consisted of the following (in thousands):

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| | Total Fair Value at September 30, 2020 | Quoted prices in active markets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| Interest rate contract liabilities, current and long-term [1] | $ (4,915) | $ — | $ (4,915) | $ — |
| Foreign currency contract assets, current and long-term [2] | $ 2,325 | $ — | $ 2,325 | $ — |
| Foreign currency contract liabilities, current and long-term [3] | $ (4,219) | $ — | $ (4,219) | $ — |
| Contingent consideration liabilities | $ (64,665) | $ — | $ — | $ (64,665) |

| | Total Fair Value at December 31, 2019 | Fair Value Measurements Using: Quoted prices in active markets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
|---|---|---|---|---|
| Interest rate contract asset, long-term [1] | $ 1,192 | $ — | $ 1,192 | $ — |
| Interest rate contract liability, long-term [1] | $ (290) | $ — | $ (290) | $ — |
| Foreign currency contract assets, current and long-term [2] | $ 2,447 | $ — | $ 2,447 | $ — |
| Foreign currency contract liabilities, current and long-term [3] | $ (4,255) | $ — | $ (4,255) | $ — |
| Contingent consideration liabilities | $ (76,709) | $ — | $ — | $ (76,709) |

[1] The fair value of the interest rate contracts is determined using Level 2 fair value inputs and is recorded as prepaid expenses and other current assets, other long-term assets, accrued expenses, or other long-term obligations in the consolidated balance sheets.

[2] The fair value of the foreign currency contract assets (including those designated as hedging instruments and those not designated as hedging instruments) is determined using Level 2 fair value inputs and is recorded as prepaid expenses and other current assets or other long-term assets in the consolidated balance sheets.

[3] The fair value of the foreign currency contract liabilities (including those designated as hedging instruments and those not designated as hedging instruments) is determined using Level 2 fair value inputs and is recorded as accrued expenses or other long-term obligations in the consolidated balance sheets.

Certain of our business combinations involve the potential for the payment of future contingent consideration, generally based on a percentage of future product sales or upon attaining specified future revenue or other milestones. The contingent consideration liability is re-measured at the estimated fair value at the end of each reporting period with the change in fair value recognized within operating expenses in the accompanying consolidated statements of income (loss) for such period. We measure the initial liability and re-measure the liability on a recurring basis using Level 3 inputs as defined under authoritative guidance for fair value measurements. Changes in the fair value of our contingent consideration liabilities during the three and nine-month periods ended September 30, 2020 and 2019 consisted of the following (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Beginning balance | $ 69,100 | $ 93,204 | $ 76,709 | $ 82,236 |
| Contingent consideration liability recorded as the result of acquisitions | — | 1,203 | — | 9,583 |
| Contingent consideration expense (benefit) | (4,356) | 273 | 884 | 3,473 |
| Contingent payments made | (130) | (15,072) | (12,991) | (15,684) |
| Effect of foreign exchange | 51 | — | 63 | — |
| Ending balance | $ 64,665 | $ 79,608 | $ 64,665 | $ 79,608 |

As of September 30, 2020, approximately $50.1 million in contingent consideration liability was included in other long-term obligations and approximately $14.5 million in contingent consideration liability was included in accrued expenses in our consolidated balance sheet. As of December 31, 2019, approximately $48.1 million in contingent consideration liability was included in other long-term obligations and approximately $28.6 million in contingent consideration liability was included in accrued expenses in our consolidated balance sheet. Cash paid to settle the contingent consideration liability recognized at fair value as of the applicable acquisition date (including measurement-period adjustments) has been reflected as a cash outflow from financing activities in the accompanying consolidated statements of cash flows.

During the year ended December 31, 2016, we sold an equity investment for cash and for the right to receive additional payments based on various contingent milestones. We determined the fair value of the contingent payments using Level 3 inputs defined under authoritative guidance for fair value measurements, and we recorded a contingent receivable asset. During the three and nine-month periods ended September 30, 2019, we recorded a gain (loss) on the contingent receivable of approximately $(119,000) and $(101,000), respectively. As of December 31, 2019, the contingent receivable was settled in full and there was no balance remaining to collect.

The recurring Level 3 measurement of our contingent consideration liabilities included the following significant unobservable inputs at September 30, 2020 and December 31, 2019 (amounts in thousands):

| Contingent consideration liability | Fair value at September 30, 2020 | Valuation technique | Unobservable inputs | Range | Weighted Averag |
|---|---|---|---|---|---|
| Revenue-based royalty payments contingent liability | $ 4,804 | Discounted cash flow | Discount rate | 13% - 20% | 13.6% |
| | | | Projected year of payments | 2020-2034 | 2025 |
| Revenue milestones contingent liability | $ 55,561 | Monte Carlo simulation | Discount rate | 11% - 14% | 12.4% |
| | | | Projected year of payments | 2020-2023 | 2022 |
| Regulatory approval contingent liability | $ 4,300 | Scenario-based method | Discount rate | 2.7% | |
| | | | Probability of milestone payment | 90% | |
| | | | Projected year of payment | 2021-2022 | 2022 |

(1) Unobservable inputs were weighted by the relative fair value of the instruments. No weighted average is reported for contingent consideration liabilities without a range of unobservable i

| Contingent consideration liability | Fair value at December 31, 2019 | Valuation technique | Unobservable inputs | Range |
|---|---|---|---|---|
| Revenue-based royalty payments contingent liability | $ 7,710 | Discounted cash flow | Discount rate | 13% - 24% |
| | | | Projected year of payments | 2020-2034 |
| Revenue milestones contingent liability | $ 66,114 | Monte Carlo simulation | Discount rate | 9% - 13.5% |
| | | | Projected year of payments | 2020-2023 |
| Regulatory approval contingent liability | $ 2,885 | Scenario-based method | Discount rate | 2.4% |
| | | | Probability of milestone payment | 65% |
| | | | Projected year of payment | 2022 |

The contingent consideration liability is re-measured to fair value each reporting period. Significant increases or decreases in projected revenues, based on our most recent internal operational budgets and long-range strategic plans, discount rates or the time until payment is made would have resulted in a significantly lower or higher fair value measurement. Our determination of the fair value of the contingent consideration liability could change in future periods based upon our ongoing evaluation of these significant unobservable inputs. We intend to record any such change in fair value to operating expenses in our consolidated statements of income (loss).

*Contingent Payments to Related Parties*

During the nine-month periods ended September 30, 2020 and 2019, we made contingent payments of approximately $800,000 and $1.0 million to a current director of Merit and former shareholder of Cianna Medical, Inc. (“Cianna Medical”), which we acquired in 2018. The terms of the acquisition, including contingent consideration payments, were determined prior to the appointment of the former Cianna Medical shareholder as a director of Merit. As a former

shareholder of Cianna Medical, the Merit director may be eligible for additional payments for the achievement of sales milestones specified in our merger agreement with Cianna Medical.

**Fair Value of Other Financial Instruments**

The carrying amount of cash and cash equivalents, receivables, and trade payables approximate fair value because of the immediate, short-term maturity of these financial instruments. Our long-term debt re-prices frequently due to variable rates and entails no significant changes in credit risk and, as a result, we believe the fair value of long-term debt approximates carrying value. The fair value of assets and liabilities whose carrying value approximates fair value is determined using Level 2 inputs, with the exception of cash and cash equivalents, which use Level 1 inputs.

***Impairment Charges***

We recognize or disclose the fair value of certain assets, such as non-financial assets, primarily property and equipment, right-of-use operating lease assets, equity investments, intangible assets and goodwill in connection with impairment evaluations. All our nonrecurring valuations use significant unobservable inputs and therefore fall under Level 3 of the fair value hierarchy.

*Intangible Assets.* During the three and nine-month periods ended September 30, 2020, we recorded impairment charges of approximately $18.1 million and $20.5 million, respectively, related to certain acquired intangible assets. During the three and nine-month periods ended September 30, 2019, we recorded impairment charges of approximately $2.7 million and $3.3 million, respectively, related to certain acquired intangible assets (see Note 6).

*Right-of-use Operating Lease Assets.* During the nine-month period ended September 30, 2020, we identified changes in events and circumstances relating to a certain right-of-use ("ROU") operating lease asset. We compared the anticipated undiscounted cash flows generated by a sublease to the carrying value of the ROU operating lease and related long-lived assets and determined that the carrying value was not recoverable. Consequently, we recorded an impairment loss of approximately $1.5 million, which is equal to the excess of the carrying value of the assets over their estimated fair value. The impairment loss was driven by site consolidation decisions and changes in our projected cash flows for the ROU operating lease asset and related long-lived assets, due to changes in the real estate market as a result of the COVID-19 pandemic. These changes include an increase in the anticipated time to identify a lessee, an increase in anticipated lease concessions, and a decrease in the expected lease rates for the property.

*Equity Investments and Purchase Options.* During the three-month period ended September 30, 2020, we recognized $2.5 million of impairment expense related to our equity method investment in the preferred shares of Fusion Medical, Inc. ("Fusion") due to uncertainty about future product development and commercialization associated with the technologies. In addition, during the nine-month period ended September 30, 2020 we recorded a charge of $3.5 million due to our write-off of our purchase option to acquire Bluegrass Vascular Technologies, Inc. ("Bluegrass Vascular") due to our decision not to exercise our option to purchase the company. Our equity investments in privately held companies, including options to acquire these companies, were approximately $12.0 million and $17.1 million as of September 30, 2020 and December 31, 2019, respectively, which are included within other long-term assets in our consolidated balance sheets. We analyze our investments in privately held companies to determine if they should be accounted for using the equity method based on our ability to exercise significant influence over operating and financial policies of the investment. Investments not accounted for under the equity method of accounting are accounted for at cost minus impairment, if applicable, plus or minus changes in valuation resulting from observable transactions for identical or similar investments.

*Property and Equipment.* During the nine-month period ended September 30, 2020, we had losses of approximately $359,000 related to the measurement of certain property and equipment measured at fair value based on restructuring activities associated with changes to our distribution agreement with NinePoint Medical, Inc. ("NinePoint").

***Notes Receivable***

Our outstanding long-term notes receivable, including accrued interest, were approximately $2.9 million and $2.7 million as of September 30, 2020 and December 31, 2019, respectively. As of September 30, 2020, we had an allowance for

current expected credit losses of $803,000 associated with these notes receivable and our contractual obligation to extend credit to Selio. We assess the allowance for current expected credit losses on an individual security basis, due to the limited number of securities, using a probability of default model, which is based on relevant information about past events, including historical experience, current conditions and reasonable and supportable forecasts that affect the expected collectability of securities. During the three and nine-month periods ended September 30, 2020, we adjusted the probability of default for all notes receivable for certain periods during the loan term due to changes in current macroeconomic conditions and our expectations of collectability as a result of the COVID-19 pandemic. The table below presents a rollforward of the allowance for current expected credit losses on our notes receivable for the three and nine-month periods ended September 30, 2020 (in thousands):

| | Three Months Ended September 30, 2020 | Nine Months Ended September 30, 2020 |
|---|---|---|
| Beginning balance | $ 757 | $ — |
| Cumulative effect adjustment upon adoption of ASU 2016-13, *Credit Losses* | — | 575 |
| Provision for credit loss expense | 46 | 228 |
| Ending balance | $ 803 | $ 803 |

**15. Accumulated Other Comprehensive Income (Loss).** The changes in each component of accumulated other comprehensive income (loss) for the three and nine-month periods ended September 30, 2020 and 2019 were as follows:

| | Cash Flow Hedges | Foreign Currency Translation | Total |
|---|---|---|---|
| Balance as of June 30, 2020 | $ (5,190) | $ (7,123) | $ (12,313) |
| Other comprehensive income (loss) | (1,354) | 3,545 | 2,191 |
| Income taxes | 152 | (117) | 35 |
| Reclassifications to: | | | |
| Revenue | (157) | | (157) |
| Cost of sales | 494 | | 494 |
| Interest expense | 425 | | 425 |
| Net other comprehensive income (loss) | (440) | 3,428 | 2,988 |
| Balance as of September 30, 2020 | $ (5,630) | $ (3,695) | $ (9,325) |

| | Cash Flow Hedges | Foreign Currency Translation | Total |
|---|---|---|---|
| Balance as of June 30, 2019 | $ 751 | $ (5,898) | $ (5,147) |
| Other comprehensive income (loss) | 319 | (2,779) | (2,460) |
| Income taxes | 53 | (14) | 39 |
| Reclassifications to: | | | |
| Revenue | (118) | | (118) |
| Cost of sales | 112 | | 112 |
| Interest expense | (520) | | (520) |
| Net other comprehensive loss | (154) | (2,793) | (2,947) |
| Balance as of September 30, 2019 | $ 598 | $ (8,692) | $ (8,094) |

Note: The changes in each component of accumulated other comprehensive income (loss) do not total for the three months ended September 30, 2019 due to the rounding in previously reported periods.

| | Cash Flow Hedges | Foreign Currency Translation | Total |
|---|---|---|---|
| Balance as of December 31, 2019 | $ 218 | $ (5,512) | $ (5,294) |
| Other comprehensive income (loss) | (8,852) | 1,944 | (6,908) |
| Income taxes | 2,027 | (127) | 1,900 |
| Reclassifications to: | | | |
| Revenue | (666) | | (666) |
| Cost of sales | 1,204 | | 1,204 |
| Interest expense | 439 | | 439 |
| Net other comprehensive income (loss) | (5,848) | 1,817 | (4,031) |
| Balance as of September 30, 2020 | $ (5,630) | $ (3,695) | $ (9,325) |

| | Cash Flow Hedges | Foreign Currency Translation | Total |
|---|---|---|---|
| Balance as of December 31, 2018 | $ 3,522 | $ (5,555) | $ (2,033) |
| Other comprehensive loss | (2,300) | (3,120) | (5,420) |
| Income taxes | 1,014 | (17) | 997 |
| Reclassifications to: | | | |
| Revenue | (220) | | (220) |
| Cost of sales | 298 | | 298 |
| Interest expense | (1,716) | | (1,716) |
| Net other comprehensive loss | (2,924) | (3,137) | (6,061) |
| Balance as of September 30, 2019 | $ 598 | $ (8,692) | $ (8,094) |

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and related condensed notes thereto, which are included in Part I of this report. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to inherent risks and uncertainties that may adversely impact our operations and financial results. These risks and uncertainties are discussed in Part I, Item 1A "Risk Factors" in the Annual Report on Form 10 K, as supplemented by any additional discussion of risk factors in Part II, Item 1A "Risk Factors" of this report and our Quarterly Reports on Form 10-Q for the periods ended March 31, 2020 and June 30, 2020.

**OVERVIEW**

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and related condensed notes thereto, which are included in Part I of this report.

We design, develop, manufacture, market and sell medical products for interventional and diagnostic procedures. For financial reporting purposes, we report our operations in two operating segments: cardiovascular and endoscopy. Our cardiovascular segment consists of four product categories: peripheral intervention, cardiac intervention, custom procedural solutions, and OEM. Within these product categories, we sell a variety of products, including cardiology and radiology devices (which assist in diagnosing and treating coronary arterial disease, peripheral vascular disease and other non-vascular diseases), as well as embolotherapeutic, cardiac rhythm management, electrophysiology, critical care, breast cancer localization and guidance, biopsy, and interventional oncology and spine devices. Our endoscopy segment consists of gastroenterology and pulmonology devices which assist in the palliative treatment of expanding esophageal, tracheobronchial and biliary strictures caused by malignant tumors.

For the three-month period ended September 30, 2020, we reported sales of approximately $244.0 million, up approximately $0.9 million or 0.4%, compared to sales for the three-month period ended September 30, 2019 of approximately $243.0 million. For the nine-month period ended September 30, 2020, we reported sales of approximately $705.9 million, down approximately $(31.1) million or (4.2)%, compared to sales from the nine-month period ended September 30, 2019 of approximately $736.9 million.

Gross profit as a percentage of sales decreased to 41.8% for the three-month period ended September 30, 2020, compared to 42.8% for the three-month period ended September 30, 2019. Gross profit as a percentage of sales decreased to 41.1% for the nine-month period ended September 30, 2020 as compared to 43.5% for the nine-month period ended September 30, 2019.

Net loss for the three-month period ended September 30, 2020 was approximately $(3.0) million, or $(0.05) per share, compared to net loss of approximately $(3.4) million, or $(0.06) per share, for the three-month period ended September 30, 2019. Net loss for the nine-month period ended September 30, 2020 was approximately $(25.2) million, or $(0.46) per share, compared to net income of approximately $9.7 million, or $0.17 per share, for the nine-month period ended September 30, 2019.

**Recent Developments and Trends and Impact of the COVID-19 Pandemic**

In addition to the trends identified in the Annual Report on Form 10-K under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations - Overview," our business in 2020 has been impacted, and we believe it will continue to be impacted, by the following recent events and trends:

- We continued to implement expense reduction initiatives we have been working on throughout 2020. We are in the process of moving 14 product lines to our Tijuana, Mexico and Pearland, Texas facilities, as well as consolidating certain satellite facilities.

- Closure of the Melbourne, Australia procedure pack operations, which we initially acquired in our acquisition of ITL in 2017, is on track to be completed during the fourth quarter of 2020.

- Sales in many of our end markets improved during the quarter after the initial declines resulting from the COVID-19 pandemic. However, with COVID-19 cases increasing, the pace of recovery of elective and deferrable procedures is still uncertain. We experienced a notable variation in the pace of recovery depending on the region of the world, and even within certain geographic regions, during the three-month period ended September 30, 2020. Recovery in our U.S. direct business has been strong, while our U.S. OEM business has been slower to recover, which we believe is primarily attributable to inventory management by our customers. Restrictions and lockdowns continue to change across the world, most notably in Europe.

- In April 2020, we initiated production of the Cultura™ nasopharyngeal swab and test kits, used to collect specimens with suspected presence of COVID-19. We recorded sales of this new product of approximately $14.2 million for the nine-month period ended September 30, 2020.

- We received IDE approval for the WRAPSODY AV Access Efficiency ("WAVE study") and for a smaller study called the WRAPSODY Central Feasibility Study ("WAVE Central study").

- Although we prioritized and eliminated certain R&D projects, our investment in R&D continues, and we are on track for new product introductions in the future.

- We have actively managed inventory levels, temporarily reduced executive management and other employee salaries, limited discretionary spending and delayed capital spending. A number of these temporary salary reductions were decreased or eliminated during the three months ended September 30, 2020.

- As of September 30, 2020, we had cash on hand of approximately $44.6 million and net available borrowing capacity of approximately $327 million.

We are committed to being part of the solution to the COVID-19 pandemic and have taken the following actions to protect and serve our customers, employees, shareholders, and communities:

- Produced Cultura swab and test kits, with sales of approximately $9.6 million and $14.2 million during the three and nine-month periods ended September 30, 2020.

- Offered serological antibody testing and rapid antigen testing for COVID-19 to employees through the Merit Care clinic at our South Jordan, UT headquarters.

- Established additional cleaning and sanitation procedures to help prevent the spread of COVID-19 within our facilities.

- Created new processes to encourage the safety of our employees, including formal policies restricting certain travel, touchless temperature screenings and mask requirements at most of our manufacturing locations, social distancing through modified workspaces, mandatory telecommuting for certain positions, and modified on-site food service practices.

**RESULTS OF OPERATIONS**

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Net sales | 100 % | 100 % | 100 % | 100 % |
| Gross profit | 41.8 | 42.8 | 41.1 | 43.5 |
| Selling, general and administrative expenses | 29.6 | 35.8 | 30.9 | 33.3 |
| Research and development expenses | 5.5 | 7.0 | 6.0 | 6.7 |
| Legal settlement | — | — | 2.6 | — |
| Impairment charges | 8.4 | 1.1 | 4.0 | 0.4 |
| Contingent consideration expense (benefit) | (1.8) | 0.1 | 0.1 | 0.5 |
| Acquired in-process research and development expense | — | — | — | 0.1 |
| Income (loss) from operations | — | (1.2) | (2.5) | 2.6 |
| Other expense - net | (0.9) | (1.1) | (1.3) | (1.2) |
| Income (loss) before income taxes | (0.9) | (2.3) | (3.8) | 1.4 |
| Net income (loss) | (1.2) | (1.4) | (3.6) | 1.3 |

**Sales**

Sales for the three-month period ended September 30, 2020 increased by 0.4%, or approximately $0.9 million, compared to the corresponding period in 2019. Sales for the nine-month period ended September 30, 2020 decreased by (4.2)%, or approximately $(31.1) million, compared to the corresponding period in 2019. Sales were negatively affected across all product categories due to the impact of the COVID-19 pandemic, with sales of products used in elective and deferrable procedures most significantly impacted. Listed below are the sales by product category within each of our financial reporting segments for the three and nine-month periods ended September 30, 2020 and 2019 (in thousands, other than percentage changes):

| | | Three Months Ended September 30, | | | Nine Months Ended September 30, | |
|---|---|---|---|---|---|---|
| | % Change | 2020 | 2019 | % Change | 2020 | 2019 |
| **Cardiovascular** | | | | | | |
| Peripheral Intervention | 3.0 % | $ 86,778 | $ 84,265 | (4.4)% | $ 246,488 | $ 257,744 |
| Cardiac Intervention | (7.7)% | 69,089 | 74,859 | (8.5)% | 207,685 | 227,042 |
| Custom Procedural Solutions | 22.0 % | 56,429 | 46,258 | 7.2 % | 149,369 | 139,335 |
| OEM | (17.0)% | 24,117 | 29,044 | (7.8)% | 80,592 | 87,449 |
| Total | 0.8 % | 236,413 | 234,426 | (3.9)% | 684,134 | 711,570 |
| | | | | | | |
| **Endoscopy** | | | | | | |
| Endoscopy devices | (12.3)% | 7,562 | 8,623 | (14.3)% | 21,737 | 25,360 |
| | | | | | | |
| Total | 0.4 % | $ 243,975 | $ 243,049 | (4.2)% | $ 705,871 | $ 736,930 |

*Cardiovascular Sales.* Our cardiovascular sales for the three-month period ended September 30, 2020 were approximately $236.4 million, up 0.8% when compared to the corresponding period of 2019 of approximately $234.4 million. Sales for the three-month period ended September 30, 2020 were favorably affected by increased sales of:

(a) Custom procedural solutions products (particularly our critical care products which saw increased demand due to COVID-19, including $9.6 million sales of our new Cultura nasopharyngeal swab and test kits used to collect and transport samples for COVID-19 testing, partially offset by decreased sales of kits) which increased by approximately $10.2 million, or 22.0%, from the corresponding period of 2019.

(b) Peripheral intervention products (particularly our drainage, embolotherapy, delivery systems, and access products, offset partially by our biopsy, intervention, and radar localization products) which increased by approximately $2.5 million, or 3.0%, from the corresponding period of 2019;

The foregoing increase in sales for the three-month period ended September 30, 2020 was partially offset by decreased sales of:

(c) Cardiac intervention products (particularly our intervention, angiography and access products) which decreased by approximately $(5.8) million, or (7.7)%, from the corresponding period of 2019; and

(d) OEM products (particularly our angiography, cardiac rhythm management/electrophysiology ("CRM/EP") products and coatings) which decreased by approximately $(4.9) million, or (17.0)%, from the corresponding period of 2019.

Our cardiovascular sales for the nine-month period ended September 30, 2020 were approximately $684.1 million, down (3.9)%, when compared to the corresponding period for 2019 of approximately $711.6 million. Sales for the nine-month period ended September 30, 2020 were unfavorably affected by decreased sales of:

(a) Cardiac intervention products (particularly our intervention, angiography, and access products) which decreased by approximately $(19.4) million, or (8.5)%, from the corresponding period of 2019; and

(b) Peripheral intervention products (particularly our biopsy, radar localization, vertebral compression fracture, angiography, intervention, and embolotherapy products, offset partially by drainage products) which decreased by approximately $(11.3) million, or (4.4)%, from the corresponding period of 2019;

(c) OEM products (particularly our CRM/EP and angiography products, offset partially by increased intervention, fluid management and kit sales) which decreased by approximately $(6.9) million, or (7.8)%, from the corresponding period of 2019.

The foregoing decrease in sales for the nine-month period ended September 30, 2020 was partially offset by increased sales of:

(d) Custom procedural solutions products (particularly our critical care products which saw increased demand due to the COVID-19 pandemic, including $14.2 million sales of our new Cultura nasopharyngeal swab and test kits used to collect and transport samples for COVID-19 testing, partially offset by decreased sales of kits) which increased by approximately $10.0 million, or 7.2%, from the corresponding period of 2019.

*Endoscopy Sales.* Our endoscopy sales for the three-month period ended September 30, 2020 were approximately $7.6 million, down (12.3)%, when compared to sales in the corresponding period of 2019 of approximately $8.6 million. Our endoscopy sales for the nine-month period ended September 30, 2020 were approximately $21.7 million, down (14.3)%, when compared to sales in the corresponding period of 2019 of approximately $25.4 million. Sales for the three and nine-month periods ended September 30, 2020 were unfavorably affected by deceased sales of the NinePoint NvisionVLE® Imaging System as a result of the suspension of our related distribution agreement, as well as decreased sales of probes and certain stents, partially offset by increased sales of our EndoMAXX® Fully Covered Esophageal Stents.

*International Sales*. International sales for the three-month period ended September 30, 2020 were approximately $100.9 million, or 41.3% of net sales, up 1.8% when compared to the corresponding period of 2019 of approximately $99.0 million. The increase in our international sales for the third quarter of 2020 compared to the third quarter of 2019 included increased sales in the Asia Pacific region (APAC) of $2.0 million or 4.2% and Europe, Middle East, and Africa (EMEA) of $0.7 million or 1.6%, partially offset by a decrease in other international sales of $(0.9) million or (11.4)%.

International sales for the nine-month period ended September 30, 2020 were approximately $303.6 million, or 43.0% of net sales, down (2.1)% when compared to the corresponding period of 2019 of approximately $310.2 million. The decrease in our international sales for the third quarter of 2020 compared to the third quarter of 2019 included decreased sales in

APAC of $(1.6) million or (1.1)%, EMEA of $(2.4) million or (1.7)% and other international sales of $(2.6) million or (11.9)%.

**Gross Profit**

Our gross profit as a percentage of sales decreased to 41.8% for the three-month period ended September 30, 2020, compared to 42.8% for the three-month period ended September 30, 2019. The decrease in gross profit percentage was primarily due to changes in product mix and increased obsolescence expense associated with lower forecasted demand for certain of our products as a result of the COVID-19 pandemic, partially offset by improvements in manufacturing variances from operational efficiencies, among other factors.

Our gross profit as a percentage of sales decreased to 41.1% for the nine-month period ended September 30, 2020, compared to 43.5% for the nine-month period ended September 30, 2019. The decrease in gross profit percentage was primarily due to changes in product mix, increased obsolescence expense associated with lower forecasted demand for certain of our products as a result of the COVID-19 pandemic in addition to specific reserves of inventory sold under our distribution agreement with NinePoint and our planned divestiture of our procedure pack business in Australia, and increased amortization expense from our acquisitions of Brightwater in June 2019 and STD Pharmaceutical in August 2019, partially offset by improvements in manufacturing variances from operational efficiencies.

**Operating Expenses**

*Selling, General and Administrative Expense.* Selling, general and administrative ("SG&A") expenses decreased approximately $(14.7) million, or (16.9)%, for the three-month period ended September 30, 2020 compared to the corresponding period of 2019. As a percentage of sales, SG&A expenses were 29.6% for the three-month period ended September 30, 2020, compared to 35.8% for the corresponding period of 2019. For the three-month period ended September 30, 2020 compared to the corresponding period of 2019, overall compensation expenses were lower as a result of cost cutting initiatives and other cost management efforts related to the COVID-19 pandemic (including layoffs, targeted furloughs, and temporary salary reductions), and discretionary spending was lower as a result of reduced travel, training, and shows and conventions, among other items.

SG&A expenses decreased approximately $(27.4) million, or (11.2)%, for the nine-month period ended September 30, 2020 compared to the corresponding period of 2019. As a percentage of sales, SG&A expenses were 30.9% for the nine-month period ended September 30, 2020, compared to 33.3% for the corresponding period of 2019. For the nine-month period ended September 30, 2020 compared to the corresponding period of 2019, overall compensation expenses were lower as a result of cost cutting initiatives and other cost management efforts related to the COVID-19 pandemic (including layoffs, targeted furloughs, and temporary salary reductions), and discretionary spending was lower as a result of reduced travel, training, and shows and conventions, among other items.

*Research and Development Expenses.* Research and development ("R&D") expenses for the three-month period ended September 30, 2020 were approximately $13.5 million, down (20.5)%, when compared to R&D expenses in the corresponding period of 2019 of approximately $17.0 million. R&D expenses for the nine-month period ended September 30, 2020 were approximately $42.4 million, down (14.1)%, when compared to R&D expenses in the corresponding period of 2019 of approximately $49.4 million. The decrease in R&D expenses for the three and nine-month periods ended September 30, 2020 compared to the same periods in 2019 was largely due to lower compensation expenses (including layoffs, targeted furloughs, and temporary salary reductions), lower discretionary expenses (including reduced travel expenses) as a result of cost-cutting initiatives and the COVID-19 pandemic, and a reduced number of research and development projects.

*Legal Settlement.* We recorded an expense in the first nine months of 2020 of $18.2 million in connection with a settlement agreement with the DOJ to fully resolve the DOJ’s investigation of certain marketing and promotional practices.

*Impairment Charges.* For the three and nine-month periods ended September 30, 2020, we recorded impairment charges of approximately $20.6 million and $28.3 million, respectively. These impairments included a $3.5 million write-off in the first quarter of 2020 of our purchase option to acquire Bluegrass Vascular due to our decision not to exercise our option

to purchase this company, $0.4 million impairment in the first quarter of property and equipment related to our distribution agreement with NinePoint, $2.4 million impairment in the second quarter of the customer list intangible asset from our ITL acquisition, $1.5 million impairment in the second quarter of our right-of-use operating lease asset associated with closure of a facility in California, $2.5 million impairment in the third quarter related to our equity investment in the preferred shares of Fusion due to uncertainty about future product development and commercialization associated with the technologies, and $18.1 in the third quarter for intangible impairment charges based on slower-than-anticipated sales growth in the acquired products, planned closure and restructuring activities, uncertainty about future product development and commercialization associated with the acquired technologies, and economic uncertainties associated with the COVID-19 pandemic.

For the three and nine-month periods ended September 30, 2019, we recorded impairment of certain intangible assets of $2.7 million and $3.3 million, respectively, based on changes in revenue expectations associated with the related product lines and restructuring.

*Contingent Consideration Expense (Benefit).* For the three-month periods ended September 30, 2020 and 2019, we recognized contingent consideration expense (benefit) of approximately $(4.4) million and $0.4 million, respectively, from changes in the estimated fair value of our contingent consideration obligations stemming from our previously disclosed business acquisitions. For the nine-month periods ended September 30, 2020 and 2019, we recognized contingent consideration expense of approximately $0.9 million and $3.6 million, respectively. Expense or benefit in each period relates to changes in the probability and timing of achieving certain revenue and operational milestones, as well as expense for the passage of time.

**Operating Income (Loss)**

The following table sets forth our operating income (loss) by financial reporting segment for the three and nine-month periods ended September 30, 2020 and 2019 (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| **Operating Income (Loss)** | | | | |
| Cardiovascular | $ (1,702) | $ (6,210) | $ (20,662) | $ 11,263 |
| Endoscopy | 1,766 | 3,329 | 3,093 | 7,581 |
| Total operating income (loss) | $ 64 | $ (2,881) | $ (17,569) | $ 18,844 |

Cardiovascular Operating Income (Loss). Our cardiovascular operating loss for the three-month period ended September 30, 2020 was approximately $(1.7) million, compared to cardiovascular operating loss in the corresponding period of 2019 of approximately $(6.2) million. The decrease in cardiovascular operating loss was primarily a result of contingent consideration benefit from fair value adjustments related to liabilities from completed acquisitions and lower compensation and discretionary expenses resulting from cost cutting initiatives and our response to the COVID-19 pandemic, which was offset partially by lower gross margins and increased impairment expense.

Our cardiovascular operating loss for the nine-month period ended September 30, 2020 was approximately $(20.7) million, compared to cardiovascular operating income in the corresponding period of 2019 of approximately $11.3 million. The decrease in cardiovascular operating income was primarily a result of decreased sales and lower gross margins, the $18.2 million legal settlement expense in 2020 related to the DOJ investigation, and increased impairment expense, partially offset by lower contingent consideration expense from fair value adjustments related to liabilities from completed acquisitions and lower compensation and discretionary expenses resulting from cost-cutting initiatives and our response to the COVID-19 pandemic.

Endoscopy Operating Income. Our endoscopy operating income for the three-month period ended September 30, 2020 was approximately $1.8 million, compared to approximately $3.3 million for the corresponding period of 2019. This decrease was a result of lower sales (largely due to decreased demand during the COVID-19 pandemic), and lower gross

margins, partially offset by lower compensation and discretionary expenses related to cost-cutting initiatives and our response to the COVID-19 pandemic.

Our endoscopy operating income for the nine-month period ended September 30, 2020 was approximately $3.1 million, compared to approximately $7.6 million for the corresponding period of 2019. This decrease was a result of lower sales (due to decreased demand during the COVID-19 pandemic and the suspension of our distribution agreement with NinePoint), lower gross margins (due in part to $1.4 million of inventory obsolescence related to products sold under our now-suspended distribution agreement with NinePoint), partially offset by lower compensation and discretionary expenses related to cost cutting initiatives and our response to the COVID-19 pandemic.

**Other Expense**

Our other expense for the three-month periods ended September 30, 2020 and 2019 was approximately $(2.2) million and $(2.8) million, respectively. The change in other expense was primarily related to decreased interest expense as a result of a lower effective interest rate and a lower average debt balance, a decrease in interest income due to the impairment of the loan receivable with NinePoint in the fourth quarter of 2019, a gain of approximately $0.5 million on the sale of the assets associated with our Hypotube product line in the third quarter of 2020, and an increase in foreign currency losses in the third quarter of 2020.

Our other expense for the nine-month periods ended September 30, 2020 and 2019 was approximately $(8.9) million and $(8.7) million, respectively. The change in other expense was primarily related to decreased interest expense as a result of a lower effective interest rate and a lower average debt balance, a decrease in interest income due to the impairment of the loan receivable with NinePoint in the fourth quarter of 2019, a gain of approximately $0.5 million on the sale of the assets associated with our Hypotube product line in the third quarter of 2020, and an increase in foreign currency losses in 2020.

**Effective Tax Rate**

Our provision for income taxes for the three-month periods ended September 30, 2020 and 2019 was a tax expense (benefit) of approximately $0.8 million and $(2.3) million, respectively, which resulted in an effective tax rate of (37.7)% and 40.3%, respectively. Our provision for income taxes for the nine-month periods ended September 30, 2020 and 2019 was a tax expense (benefit) of approximately $(1.3) million and $0.5 million, respectively, which resulted in an effective tax rate of 4.7% and 4.9%, respectively. The income tax benefit and corresponding decrease in the effective tax rate for the three and nine-month periods ended September 30, 2020, when compared to the prior-year periods, was primarily due to a pre-tax loss during the 2020 periods, as well as a change in the jurisdictional mix of earnings. Our effective tax rate differs from the U.S. statutory rate primarily due to the impact of GILTI, state income taxes, foreign taxes, other non-deductible permanent items and discrete items (such as share-based compensation and certain legal settlements).

**Net Income (Loss)**

Our net income (loss) for the three-month periods ended September 30, 2020 and 2019 was approximately $(3.0) million and $(3.4) million, respectively. This decrease in our net loss was a result of several factors, including contingent consideration benefit from fair value adjustments related to liabilities from completed acquisitions and lower compensation and discretionary expenses resulting from cost cutting initiatives and our response to the COVID-19 pandemic, partially offset by lower gross margins and increased impairment expense.

Our net income (loss) for the nine-month periods ended September 30, 2020 and 2019 was approximately $(25.2) million and $9.7 million, respectively. The decrease in net income was primarily due to decreased sales and lower gross margins, the $18.2 million legal settlement expense related to the DOJ inquiry and increased impairment expense, partially offset by lower contingent consideration expense from fair value adjustments related to liabilities from completed acquisitions and lower compensation and discretionary expenses resulting from cost cutting initiatives and our response to the COVID-19 pandemic.

**LIQUIDITY AND CAPITAL RESOURCES**

**Capital Commitments, Contractual Obligations and Cash Flows**

At September 30, 2020 and December 31, 2019, our current assets exceeded current liabilities by $248.6 million and $272.9 million, respectively, and we had cash and cash equivalents of approximately $44.6 million and $44.3 million, respectively, of which approximately $41.1 million and $31.7 million, respectively, were held by foreign subsidiaries. We currently believe future repatriation of cash and other property held by our foreign subsidiaries will generally not be subject to U.S. federal income tax. As a result, we are not permanently reinvested with respect to our historic unremitted foreign earnings. In addition, cash held by our subsidiary in China is subject to local laws and regulations that require government approval for the transfer of such funds to entities located outside of China. As of September 30, 2020, and December 31, 2019, we had cash and cash equivalents of approximately $18.6 million and $11.3 million, respectively, within our subsidiary in China.

*Cash flows provided by operating activities.* We generated cash from operating activities of approximately $128.4 million and $50.9 million during the nine-month periods ended September 30, 2020 and 2019, respectively. Net cash provided by operating activities increased approximately $77.5 million for the nine-month period ended September 30, 2020 compared to the nine-month period ended September 30, 2019. Significant factors affecting operating cash flows during these years included:

- Cash provided by (used for) accounts receivable was approximately $13.0 million and $(6.8) million for the nine-month periods ended September 30, 2020 and 2019, respectively, due primarily to decreases in sales volume and increased allowances due to economic uncertainty,
- Cash provided by (used for) inventories was approximately $15.7 million and $(19.3) million for the nine-month periods ended September 30, 2020 and 2019, respectively, due primarily to reduced production during the economic downturns related to the pandemic and efforts to manage inventory levels,
- Cash provided by accrued expenses was approximately $22.6 million and $1.7 million for the nine-month periods ended September 30, 2020 and 2019, respectively, due primarily to increased accruals associated with pending legal settlement expenses estimated at $18.2 million, and
- Cash flows related to compensation and discretionary spending were also lower during the nine months ended September 30, 2020 compared to 2019 as a result of temporary salary reductions and discretionary spending reductions related to the COVID-19 pandemic.

*Cash flows used in investing activities.* We used cash in investing activities of approximately $36.8 million and $113.9 million for the nine-month periods ended September 30, 2020 and 2019, respectively. We invested in capital expenditures for property and equipment of approximately $35.6 million and $58.1 million in the nine-month periods ended September 30, 2020 and 2019, respectively. Capital expenditures in each fiscal year were primarily related to investment in buildings, property and equipment to support development and production of new and expanded product lines and to facilitate growth in our distribution markets. These investments include construction of a new manufacturing and research and development facility in South Jordan, Utah completed in early 2020. Historically, we have incurred significant expenses in connection with facility construction, production automation, product development and the introduction of new products. We anticipate that we will spend approximately $42 to $48 million in 2020 for buildings, property and equipment.

Cash paid for acquisitions in the nine-month period ended September 30, 2020 was approximately $0.3 million. Cash paid for acquisitions for the nine-month period ended September 30, 2019 was approximately $53.5 million and was primarily related to our investment in the equity of Fluidx Medical Technology, LLC and our acquisitions of Brightwater and STD Pharmaceutical.

*Cash flows provided by (used in) financing activities.* Cash provided by (used in) financing activities for the nine-month periods ended September 30, 2020 and 2019 was approximately $(91.2) million and $33.7 million, respectively. In 2020 we completed payment of contingent consideration of $12.9 million, which is classified as a financing activity, principally

related to our acquisition of Cianna Medical, and decreased our net borrowings by approximately $82.3 million. In 2019, our primary financing activities included additional net borrowings of $45.0 million under our credit agreement to partially fund our acquisition activity and capital expenditures for property and equipment, and contingent payments of $15.7 million, principally related to our acquisition of Cianna Medical.

As of September 30, 2020, we had outstanding borrowings of approximately $357.7 million under the Third Amended Credit Agreement, with additional available borrowings of approximately $327 million, based on the net leverage ratio required pursuant to the Third Amended Credit Agreement. Our interest rate as of September 30, 2020 was a fixed rate of 2.62% on $175 million as a result of an interest rate swap (see Note 9) and a variable floating rate of 1.66% on $182.7 million. Our interest rate as of December 31, 2019 was a fixed rate of 2.62% on $175 million as a result of an interest rate swap and a variable floating rate of 3.30% on $265 million. The foregoing fixed rates are exclusive of changes in the notional amount and fixed rate associated with our interest rate swaps beginning July 6, 2021 as described in Note 9 and potential future changes in the applicable margin.

We currently believe that our existing cash balances, anticipated future cash flows from operations and borrowings under the Third Amended Credit Agreement will be adequate to fund our current and currently planned future operations for the next twelve months and the foreseeable future. In the event we pursue and complete significant transactions or acquisitions in the future, additional funds will likely be required to meet our strategic needs, which may require us to raise additional funds in the debt or equity markets.

**Off-Balance Sheet Arrangements**

We have committed to provide loans of up to an additional €2 million at the discretion of Selio at a rate of 5% per annum. The current note receivable balance from Selio is $250,000. Additional loans made to Selio pursuant to our loan agreement, if any, together with the initial advance and all other amounts owed to us by Selio, would be securitized by Selio's assets. Aside from this arrangement, we do not have any off-balance sheet arrangements that have had, or are reasonably likely in the future to have, an effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Our significant accounting policies are summarized in Note 1 to our consolidated financial statements in Item 8 of the Annual Report on Form 10-K. While all of these significant accounting policies affect the reporting of our financial condition and results of operations, the SEC has requested that all registrants address their most critical accounting policies. The SEC has indicated that a "critical accounting policy" is one which is both important to the representation of the registrant's financial condition and results and requires management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. We base our estimates on past experience and on various other assumptions our management believes to be reasonable under the circumstances, the results of which form the basis for making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results will differ and may differ materially from these estimates under different assumptions or conditions. Additionally, changes in accounting estimates could occur in the future from period to period. The following paragraphs identify our most critical accounting policies:

**Valuation of Goodwill and Intangible Assets.** We allocate any excess purchase price over the fair value of the net tangible and identifiable intangible assets acquired in a business combination to goodwill. We base the fair value of identifiable intangible assets acquired in a business combination on valuations that use information and assumptions that a market participant would use, including assumptions for estimated revenue projections, growth rates, cash flows, discount rates, useful life, and other relevant assumptions.

We test our goodwill balances for impairment annually as of July 1, or whenever impairment indicators arise. When impairment indicators are identified, we may elect to perform an optional qualitative assessment to determine whether it is more likely than not that the fair value of our reporting units has fallen below their carrying value. This assessment involves significant judgment, especially in the current environment due to uncertainties about the duration and impact of the COVID-19 pandemic. During our annual impairment test performed as of July 1 we utilize several reporting units in

evaluating goodwill for impairment using a quantitative assessment, which uses a combination of a guideline public company market-based approach and a discounted cash flow income-based approach. The quantitative assessment considers whether the carrying amount of a reporting unit exceeds its fair value, in which case an impairment charge is recorded to the extent the reporting unit's carrying value exceeds its fair value. This analysis requires significant judgment, including estimation of future cash flows and the length of time they will occur, which is based on internal forecasts, and a determination of a discount rate based on our weighted average cost of capital. During our annual test of goodwill balances in 2020, which was completed during the third quarter of 2020, we determined that the fair value of each reporting unit with goodwill exceeded the carrying amount by a significant amount.

We evaluate the recoverability of intangible assets subject to amortization whenever events or changes in circumstances indicate that an asset's carrying amount may not be recoverable. This analysis requires similar significant judgments as those discussed above regarding goodwill, except that undiscounted cash flows are compared to the carrying amount of intangible assets to determine if impairment exists. In-process technology intangible assets, which are not subject to amortization until projects reach commercialization, are assessed for impairment at least annually and more frequently if events occur that would indicate a potential reduction in the fair value of the assets below their carrying value.

During the three-month period ended September 30, 2020, we compared the carrying value of the amortizing intangible assets acquired in acquisitions of certain assets to the undiscounted cash flows expected to result from these asset groups and determined that the carrying amounts were not recoverable. We then determined the fair value of the amortizing assets based on estimated future cash flows discounted back to their present value using discount rates that reflect the risk profile of the underlying activities. We recorded total impairment charges associated with intangible assets in our cardiovascular segment for the three and nine-month periods ended September 30, 2020 of approximately $18.1 million and $20.5 million, respectively. These expenses are reflected within impairment charges in our consolidated statements of income (loss). The primary factors driving impairment of certain intangible assets were slower-than-anticipated sales growth in the acquired products, planned closure and restructuring activities, uncertainty about future product development and commercialization associated with the acquired technologies, and economic uncertainties associated with the COVID-19 pandemic. The intangible impairment charges relate to a write-off or reduction in value of intangible assets from our August 2017 acquisition of certain assets from Laurane Medical S.A.S, our license agreements with ArraVasc Limited, intangible assets from our May 2018 acquisition of certain assets from DirectACCESS Medical, LLC, in-process technology intangible assets from Sontina Medical LLC in connection our February 2018 acquisition of certain divested assets from Becton, Dickinson and Company, and a customer list intangible asset from our October 2017 acquisition of ITL.

During the three months ended September 30, 2019, we compared the carrying value of the amortizing intangible assets acquired in acquisitions of certain assets to the undiscounted cash flows expected to result from these asset groups and determined that the carrying amounts were not recoverable. We recorded intangible asset impairment charges in our cardiovascular segment for the three and nine-month periods ended September 30, 2019 of approximately $2.7 million and $3.3 million, respectively. These expenses are reflected within impairment charges in our consolidated statements of income (loss). The primary indicators of impairment were slower than anticipated sales growth in the acquired products and uncertainty about future product development and commercialization associated with the acquired technologies. The intangible impairment charges related to our amortizing intangible assets from our July 2015 acquisition of certain assets from Distal Access, LLC, our June 2016 acquisition of certain assets from Lazarus Medical Technologies, LLC, and our July 2017 acquisition of certain assets from Pleuratech ApS.

**Contingent Consideration.** Contingent consideration is an obligation by the buyer to transfer additional assets or equity interests to the former owner upon reaching certain performance targets. Certain of our business combinations involve the potential for the payment of future contingent consideration, generally based on a percentage of future product sales or upon attaining specified future revenue or operational milestones. In connection with a business combination, any contingent consideration is recorded at fair value on the acquisition date based upon the consideration expected to be transferred in the future. We base the fair value of contingent consideration obligations acquired in a business combination on valuations that use information and assumptions that a market participant would use, including assumptions for estimated revenue growth rates, discount rates, probabilities of achieving regulatory approval, performance, or revenue-based milestones and other relevant factors. These assumptions are impacted by our best estimates of the timing and duration of the current COVID-19 pandemic.

We re-measure the estimated liability each quarter and record changes in the estimated fair value through operating expense in our consolidated statements of income. Significant increases or decreases in our estimates and developments related to the COVID-19 pandemic could result in changes to the estimated fair value of our contingent consideration liability, as the result of changes in the timing and amount of revenue estimates, as well as changes in the discount rate or periods.

For the three and nine-month periods ended September 30, 2020, we recognized contingent consideration expense (benefit) of approximately $(4.4) million and $0.9 million, respectively, from changes in the estimated fair value of our contingent consideration obligations stemming from our previously disclosed business acquisitions. Changes in the fair value of our contingent consideration liabilities were primarily attributable to slower-than-anticipated sales growth in the acquired products and economic uncertainties associated with the COVID-19 pandemic affecting sales growth and the anticipated timing of milestone payments.

## ADDITIONAL INFORMATION

### Cybersecurity

We have established controls and procedures to escalate enterprise level issues, including cybersecurity matters, to the appropriate management levels within our organization and our Board of Directors, or members or committees thereof, as appropriate. Under our framework, cybersecurity issues are analyzed by subject matter experts for potential financial, operational, and reputational risks, based on, among other factors, the nature of the matter and breadth of impact. Matters determined to present potential material impacts to the Company's financial results, operations, and/or reputation are immediately reported by management to our Board of Directors, or individual members or committees thereof, as appropriate, in accordance with our escalation framework. In addition, we have established procedures to ensure that management responsible for overseeing the effectiveness of disclosure controls is informed in a timely manner of known cybersecurity risks and incidents that may materially impact our operations and that timely public disclosure is made as appropriate.

### Insider Trading Policy

Our directors and executive officers are subject to our Corporate Policy on Insider Trading, which is designed to facilitate compliance with insider trading laws and governs transactions in our common stock and related derivative securities. Any director, officer or employee in possession of material, nonpublic information, or who may be deemed to possess such information by reason of his or her positions, may not (i) trade in the Company's securities; (ii) share the information with others ("tipping"), or (iii) permit a member of his or her immediate family to trade in the Company's securities. Our policy designates certain regular periods, from 15 days prior to the end of a calendar quarter to two full business days after the release of financial results, in which trading is prohibited for individuals in information-sensitive positions, including directors and executive officers. Our policy also prohibits executive officers and directors (i) trading in Merit stock on a short term basis (minimum six-month holding period); (ii) engaging in short sales of Merit stock; (iii) buying or selling put options or call options or other derivative instruments associated with Merit stock; or (iv) entering into hedging transactions associated with Merit stock.

Additional periods of trading restriction may be imposed as determined by our Chief Executive Officer or the Insider Trading Compliance Officers (currently our Chief Legal Officer and our Chief Financial Officer) in light of material pending developments. Further, during permitted windows, individuals in information-sensitive positions are required to seek pre-clearance for trades from an Insider Trading Compliance Officer, who assesses whether there are any important pending developments, including cybersecurity matters, which need to be made public before the individual may participate in the market.

## CAUTIONARY NOTICE 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 (the "Exchange Act"). All statements in

this report, other than statements of historical fact, are “forward-looking statements” for purposes of these provisions, including, without limitation, any projections of earnings, revenues or other financial items, any statements of the plans and objectives of our management for future operations, any statements concerning proposed new products or services, any statements regarding the integration, development or commercialization of the business or any assets acquired from other parties, any statements regarding future economic conditions or performance, and any statements of assumptions underlying any of the foregoing. All forward-looking statements included in this report are made as of the date hereof and are based on information available to us as of such date. We assume no obligation to update any forward-looking statement. In some cases, forward-looking statements can be identified by the use of terminology such as “may,” “will,” “expects,” “plans,” “should,” “anticipates,” “intends,” “seeks,” “believes,” “estimates,” “potential,” “forecasts,” “continue,” or other forms of these words or similar words or expressions, or the negative thereof or other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements contained herein are reasonable, there can be no assurance that such expectations or any of the forward-looking statements will prove to be correct. Actual results will likely differ, and could differ materially, from those projected or assumed in the forward-looking statements. Prospective investors are cautioned not to unduly rely on any such forward-looking statements.

All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. Our actual results will likely differ, and may differ materially, from anticipated results. Financial estimates are subject to change and are not intended to be relied upon as predictions of future operating results, and we assume no obligation to update or disclose revisions to those estimates. If we do update or correct one or more forward-looking statements, investors and others should not conclude that we will make additional updates or corrections.

**NOTICE REGARDING TRADEMARKS**

This report includes trademarks, tradenames and service marks that are our property or the property of others. Solely for convenience, such trademarks and tradenames sometimes appear without any “™” or “®” symbol. However, failure to include such symbols is not intended to suggest, in any way, that we will not assert our rights or the rights of any applicable licensor, to these trademarks and tradenames.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Quantitative and qualitative disclosures about exchange rate risk are included in Par II, Item 7A "Quantitative and Qualitative Disclosures About Market Risk" of the Annual Report on Form 10-K. There have been no material changes from the information provided therein.

## ITEM 4. CONTROLS AND PROCEDURES

**Evaluation of Disclosure Controls and Procedures**

Our management is responsible for establishing and maintaining adequate disclosure controls and procedures for our company. Consequently, our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Exchange Act as of September 30, 2020. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs. Based on that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

**Changes in Internal Control Over Financial Reporting**

During the quarter ended September 30, 2020, there were no changes in our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934).

## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

See Note 10 “Commitments and Contingencies” set forth in the notes to our consolidated financial statements included in Part I, Item 1 of this report.

### ITEM 1A. RISK FACTORS

In addition to other information set forth in this report, readers should carefully consider the factors discussed in Part I, Item 1A. "Risk Factors" of the Annual Report on Form 10-K, as updated and supplemented below. Any of the risk factors disclosed in our reports could materially affect our business, financial condition or future results. The risks described here and in our Annual Report on Form 10-K are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and/or operating results, particularly in light of the precarious and unpredictable nature of the COVID-19 pandemic, containment measures, the potential for future waves of outbreaks and the related impacts to economic and operating conditions.

***The COVID-19 pandemic has negatively impacted our business and operations around the world and may continue to materially and adversely impact our business, operations and financial results.***

The novel strain of coronavirus that surfaced in late 2019 and the resulting disease COVID-19, is an ongoing global pandemic. The COVID-19 pandemic has created significant disruption and uncertainty in the global economy, has negatively impacted our business, results of operations and financial condition, and we anticipate that it may continue to negatively impact our business, results of operations and financial condition for the foreseeable future.

Numerous national, international, state and local jurisdictions have imposed, and others in the future may impose, "shelter-in-place" orders, quarantines, executive orders and similar government orders and restrictions for their residents to control the spread of COVID-19. Such orders or restrictions cause significant alteration of our operations, work stoppages, slowdowns and delays, travel restrictions and cancellation of events, among other effects, thereby significantly and negatively impacting our operations. Other disruptions or potential disruptions include (i) restrictions on our personnel and personnel of business partners to travel and access customers for training and case support; (ii) reductions in spending by our customers; (iii) delays in approvals by regulatory bodies; (iv) diversion of or limitations on employee resources that would otherwise be focused on the operations of our business, including because of sickness of employees or their families or the desire of employees to avoid contact with large groups of people; (v) reductions in our sales team, including through layoffs, furloughs or other losses of sales representatives; (vi) additional government requirements or other incremental mitigation efforts that may further impact our or our suppliers' capacity to manufacture our products; (vii) disruption of our research and development activities; and (viii) delays in ongoing studies and pre-clinical trials.

In addition, elective procedures that use our products have significantly decreased in number as health care organizations around the world have prioritized the treatment of patients with COVID-19 and reduced spending in other areas. For example, in the United States, governmental authorities have recommended, and in certain cases required, that elective, deferrable, specialty and other procedures and appointments, be suspended or canceled to avoid non-essential patient exposure to medical environments and potential infection with COVID-19 and to focus limited resources and personnel capacity toward the treatment of COVID-19 patients. Specifically, many of these procedures that use our products have been suspended or postponed. While certain of these procedures have resumed in certain locations, it is unclear when or if all procedures in all locations will resume.

While we have seen increases in demand for certain product lines during the pandemic, including our Cultura nasopharyngeal swab and test kit, this increased demand has not been, and may not be, sufficient to offset the revenue declines in other areas. We also expect continued pressure on our margins due to decreased demand for products with gross margins that are higher than the company average.

In addition, most of the hospitals and clinics that purchase our products have instituted strict procedures at their facilities in an effort to prevent the spread of COVID-19, including restrictions on sales representatives entering these facilities. This has been, and currently remains, a major impediment to our sales efforts, as supporting existing customers and acquiring new customers is much more difficult in this environment. These restrictions have had a significant adverse effect on our sales and, until they are lifted, our business, operations and financial results will continue to be adversely impacted.

Further, once the pandemic subsides, we anticipate there will be substantial backlog of patients seeking appointments with physicians and surgeries to be performed at hospitals and ambulatory surgery centers relating to a variety of medical conditions, and as a result, patients seeking procedures that use our products will have to navigate limited provider capacity. We believe this limited provider, hospital and ambulatory surgery center capacity could have a significant adverse effect on our business, operations and financial results following the end of the pandemic.

These challenges and restrictions will likely continue for the duration of the pandemic, which is uncertain, and may even continue beyond the pandemic. Many areas are relaxing restrictions and resuming business operations, but a resurgence in infections could cause authorities to reinstate such restrictions or impose additional restrictions. The extent to which the COVID-19 pandemic impacts our business, operations and financial results will depend on future developments that are uncertain and cannot be predicted, including new information that may emerge concerning the severity and spread of the virus and the actions by government entities, our customers and other parties to contain the virus or treat its impact, among others. To the extent the COVID-19 pandemic adversely affects our business, operations and financial results, it may also have the effect of heightening other risks described in “Risk Factors” in our Annual Report on Form 10-K and our subsequent quarterly reports on Form 10-Q, such as those relating to general economic conditions, demand for our products, relationships with suppliers and sales efforts.

**ITEM 6. EXHIBITS**

| Exhibit No. | Description |
|---|---|
| 3.1 | Second Amended and Restated Articles of Incorporation (1) |
| 3.2 | Third Amended and Restated Bylaws (1) |
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2 | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101 | The following financial information from the quarterly report on Form 10-Q for the quarter ended September 30, 2020, formatted in Inline Extensible Business Reporting Language (iXBRL): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income (Loss), (iii) Consolidated Statements of Comprehensive Income (Loss), (iv) Consolidated Statements of Stockholders' Equity, (v) Consolidated Statements of Cash Flows, and (vi) related Condensed Notes to the Unaudited Consolidated Financial Statements, tagged in detail. |
| 104 | Cover Page Interactive Data File (the cover page XBRL tags are embedded within the Inline XBRL document). |

(1) Incorporated by reference from our Current Report on Form 8-K filed on May 31, 2018 (as amended).

**SIGNATURES**

Pursuant to the requirements 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.

MERIT MEDICAL SYSTEMS, INC.

REGISTRANT

Date: November 5, 2020

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

Date: November 5, 2020

By: /s/ RAUL PARRA
Raul Parra
Chief Financial Officer and Treasurer

**EXHIBIT 31.1**

**CERTIFICATION**

I, Fred P. Lampropoulos, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q (the "Report") of Merit Medical Systems, Inc. (the "Registrant");

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 and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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 reporting 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 officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, 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 adversely 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: November 5, 2020

/s/ Fred P. Lampropoulos
Fred P. Lampropoulos
President and Chief Executive Officer
(principal executive officer)

**EXHIBIT 31.2**

**CERTIFICATION**

I, Raul Parra, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q (the "Report") of Merit Medical Systems, Inc. (the "Registrant");

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 and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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 reporting 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 officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, 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 adversely 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: November 5, 2020

/s/ Raul Parra
Raul Parra
Chief Financial Officer
(principal financial officer)

**EXHIBIT 32.1**

**Certification of Principal Executive Officer**
**Pursuant to 18 U.S.C. Section 1350, as Adopted**
**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report on Form 10-Q of Merit Medical Systems, Inc. (the "Company") for the quarter ended September 30, 2020, as filed with the Securities and Exchange Commission (the "Report"), I, Fred P. Lampropoulos, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(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 the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 5, 2020

/s/ Fred P. Lampropoulos
Fred P. Lampropoulos
President and Chief Executive Officer
(principal executive officer)

This certification accompanies the foregoing Report pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Registrant for purposes of Section 18 of the Securities Exchange Act of 1934, as amended. A signed original of this certification has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**EXHIBIT 32.2**

**Certification of Chief Financial Officer**
**Pursuant to 18 U.S.C. Section 1350, as Adopted**
**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report on Form 10-Q of Merit Medical Systems, Inc. (the "Company") for the quarter ended September 30, 2020, as filed with the Securities and Exchange Commission (the "Report"), I, Raul Parra, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(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 the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 5, 2020

/s/ Raul Parra
Raul Parra
Chief Financial Officer
(principal financial officer)

This certification accompanies the foregoing Report pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Registrant for purposes of Section 18 of the Securities Exchange Act of 1934, as amended. A signed original of this certification has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.