
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, 2005.

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

(State or other jurisdiction of incorporation or organization)

87-0447695

(I.R.S. Identification No.)

1600 West Merit Parkway, South Jordan, UT, 84095

(Address of Principal Executive Offices)

(801) 253-1600

(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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

Title or class

27,127,862

Number of Shares

Outstanding at November 3, 2005

MERIT MEDICAL SYSTEMS, INC.

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Part I - - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2005 AND DECEMBER 31, 2004
(In Thousands and Unaudited)

	September 30, 2005	December 31, 2004
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 11,976	\$ 33,037
Trade receivables - net	21,705	19,724
Employee receivables	143	94
Other receivables	270	63
Inventories	29,699	23,096
Prepaid expenses and other assets	1,278	797
Deferred income tax assets	41	56
Total current assets	<u>65,112</u>	<u>76,867</u>
PROPERTY AND EQUIPMENT:		
Land and land improvements	6,166	4,664
Building	39,583	18,272
Manufacturing equipment	42,409	32,475
Furniture and fixtures	15,262	12,786
Leasehold improvements	4,117	4,085
Construction-in-progress	13,454	14,474
Total	120,991	86,756
Less accumulated depreciation and amortization	<u>(38,001)</u>	<u>(34,264)</u>
Property and equipment—net	<u>82,990</u>	<u>52,492</u>
OTHER ASSETS:		
Other intangibles, net	2,747	1,990
Goodwill	5,750	5,570
Other assets	2,254	1,822
Note receivable		1,000
Deposits	128	136
Total other assets	<u>10,879</u>	<u>10,518</u>
TOTAL ASSETS	<u>\$ 158,981</u>	<u>\$ 139,877</u>

See notes to consolidated financial statements.

MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2005 AND DECEMBER 31, 2004
(In Thousands and Unaudited)

	September 30, 2005	December 31, 2004
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 2	\$ 7

Trade payables	12,506	10,728
Accrued expenses	9,121	8,467
Advances from employees	232	221
Deferred income tax liabilities	768	227
Income taxes payable	1,016	2,273
Total current liabilities	23,645	21,923
DEFERRED INCOME TAX LIABILITIES	2,494	2,580
LONG-TERM DEBT	3	5
DEFERRED COMPENSATION PAYABLE	2,211	1,702
DEFERRED CREDITS	2,462	2,615
OTHER LIABILITIES	112	
Total liabilities	30,927	28,825
STOCKHOLDERS' EQUITY:		
Preferred stock—5,000 shares authorized as of September 30, 2005, no shares issued		
Common stock—no par value; 50,000 shares authorized; 27,128 and 26,486 shares issued at September 30, 2005 and December 31 2004, respectively	47,469	42,559
Retained earnings	80,974	68,891
Accumulated other comprehensive loss	(389)	(398)
Total stockholders' equity	128,054	111,052
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 158,981	\$ 139,877

See notes to consolidated financial statements.

MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2005 AND 2004
(In Thousands Except Share Data and Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
NET SALES	\$ 41,224	\$ 35,476	\$ 123,903	\$ 112,059
COST OF SALES	24,422	19,683	71,379	61,825
GROSS PROFIT	16,802	15,793	52,524	50,234
OPERATING EXPENSES:				
Selling, general, and administrative	10,010	8,457	29,043	25,789
Research and development	1,788	1,210	5,082	3,674
Total operating expenses	11,798	9,667	34,125	29,463
INCOME FROM OPERATIONS	5,004	6,126	18,399	20,771
OTHER INCOME (EXPENSE):				
Litigation settlement				100
Interest income	99	144	424	400
Other income(expense) - net	(13)	(41)	(54)	(50)
Other income - net	86	103	370	450
INCOME BEFORE INCOME TAXES	5,090	6,229	18,769	21,221
INCOME TAX EXPENSE	1,763	2,040	6,686	7,586
NET INCOME	\$ 3,327	\$ 4,189	\$ 12,083	\$ 13,635
EARNINGS PER COMMON SHARE:				
Basic	\$.12	\$.16	\$.45	\$.52
Diluted	\$.12	\$.15	\$.43	\$.49

AVERAGE COMMON SHARES:

Basic	27,008,936	26,380,059	26,748,957	26,249,212
Diluted	<u>28,112,012</u>	<u>27,760,219</u>	<u>27,811,053</u>	<u>27,756,826</u>

See notes to consolidated financial statements.

MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2005 AND 2004
(In Thousands and Unaudited)

	Nine Months Ended September 30,	
	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 12,083	\$ 13,635
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,935	3,544
Losses on sales of property and equipment		2
Bad debt expense	35	45
Write-off of certain patents and trademarks	65	243
Amortization of deferred credits	(153)	(152)
Deferred income taxes	470	206
Tax benefit attributable to appreciation of common stock options exercised	2,587	2,698
Changes in operating assets and liabilities:		
net of effects from acquisition:		
Trade receivables	(2,016)	467
Employee receivables	(49)	71
Other receivables	(206)	39
Inventories	(6,447)	(2,226)
Prepaid expenses and other assets	(481)	(248)
Income tax refund receivables		372
Deposits	8	(95)
Trade payables	1,526	(264)
Accrued expenses	(38)	(514)
Advances from employees	11	(27)
Income taxes payable	(1,256)	989
Other liabilities	113	
Total adjustments	<u>(1,896)</u>	<u>5,150</u>
Net cash provided by operating activities	<u>10,187</u>	<u>18,785</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Capital expenditures for:		
Property and equipment	(33,902)	(15,382)
Patents and trademarks	(182)	(456)
Increase in cash surrender value of life insurance contracts	(432)	(869)
Proceeds from the sale of property and equipment	4	2
Cash paid in acquisition	<u>(86)</u>	
Net cash used in investing activities	<u>(34,598)</u>	<u>(16,705)</u>

See notes to consolidated financial statements.

MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2005 AND 2004
(In Thousands and Unaudited)

	Nine Months Ended September 30,	
	2005	2004
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from:		
Issuance of common stock	\$ 3,014	\$ 1,277

Principal payments on long-term debt	(8)	(17)
Increase in deferred compensation payable	509	897
Net cash provided by financing activities	3,515	2,157
EFFECT OF EXCHANGE RATES ON CASH	(165)	(7)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(21,061)	4,230
CASH AND CASH EQUIVALENTS:		
Beginning of period	33,037	30,204
End of period	\$ 11,976	\$ 34,434
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION—Cash paid during the period for:		
Interest	\$ 18	\$ 4
Income taxes	\$ 4,908	\$ 3,321

SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

- During the nine months ended September 30, 2005 and 2004, 48,795 and 24,114 matured shares (i.e. shares owned for more than six months) of Merit common stock were surrendered in exchange for Merit's recording of payroll tax liabilities in the amount of approximately \$691,000 and \$459,000, respectively, related to the exercise of stock options. The matured shares were valued based upon the closing price of the Merit common stock on the surrender date.
- During the nine months ended September 30, 2005 and 2004, 26,231 and 14,820 matured shares of Merit common stock, with a value of approximately \$371,000 and \$265,000, respectively, were surrendered in exchange for the exercise of stock options.
- During the nine months ended September 30, 2005, Merit acquired substantially all of the assets of Sub-Q, Inc. ("Sub-Q") (including know-how and certain formulas, but excluding patents), in a purchase transaction for \$1,085,785, which included a \$1.0 million promissory note advanced to Sub-Q during 2004 which was applied to the purchase price. The purchase price was preliminarily allocated between fixed assets for \$174,203, other intangibles for \$750,000 and goodwill for \$161,582.
- As of September 30, 2005 and 2004, \$4.3 million and \$3.7 million, respectively, of additions to plant, equipment, and other asset purchases were accrued in accounts payable.

See notes to consolidated financial statements.

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

1. Basis of Presentation. The interim consolidated financial statements of Merit Medical Systems, Inc. ("Merit," "we" or "us") for the three and nine-month periods ended September 30, 2005 and 2004 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 in conformity with accounting principles generally accepted in the United States of America. In the opinion of 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, 2005, and our results of operations and cash flows for the three and nine-month periods ended September 30, 2005 and 2004. The results of operations for the three and nine-month periods ended September 30, 2005 are not necessarily indicative of the results for a full-year period. These interim consolidated financial statements should be read in conjunction with the financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2004 filed with the Securities and Exchange Commission (the "SEC").

Stock-Based Compensation. We account for stock compensation arrangements under the intrinsic value method outlined in Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, (APB Opinion No. 25) and currently intend to continue to do so until we adopt the provisions of Statement of Financial Accounting Standards (SFAS) No. 123R, *Share-Based Payment*, (SFAS No. 123R). Accordingly, no compensation cost has been recognized for our stock compensation arrangements. If the compensation cost for our compensation plans had been determined consistent with SFAS No. 123, our net income and earnings per common share and common share equivalent would have changed to the pro forma amounts indicated below (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Net income, as reported	\$ 3,327	\$ 4,189	\$ 12,083	\$ 13,635
Compensation cost under fair value-based accounting method, net of tax	568	459	3,458	2,722
Net income, pro forma	<u>\$ 2,759</u>	<u>\$ 3,730</u>	<u>\$ 8,625</u>	<u>\$ 10,913</u>

Net income per common share:

Basic:

As reported	\$	0.12	\$	0.16	\$	0.45	\$	0.52
Pro forma		0.10		0.14		0.32		0.42
Diluted:								
As reported		0.12		0.15		0.43		0.49
Pro forma		0.10		0.13		0.31		0.39

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

	Three and Nine-Months Ended September 30,	
	2005	2004
Risk-free interest rate	2.32 - 5.20%	2.32 - 6.13%
Expected option life	2.5 - 5.0 years	2.5 - 5.0 years
Expected price volatility	46.28 - 63.97%	47.54 - 63.97%

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

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fully vested on the date of grant. On February 3, 2005, we accelerated the vesting of 427,448 options with an exercise price of \$21.67, which was in excess of the current market price. The acceleration of these options increased the pro-forma compensation cost for the nine months ended September 30, 2005 by approximately \$1.9 million, net of tax.

Reclassifications. Subsequent to the issuance of our Quarterly Report on Form 10-Q for the three months ended September 30, 2004, we determined that certain of our liabilities associated with the acquisition of properties, plant and equipment were erroneously reflected as cash inflows for operating activities and cash outflows for investing activities. Management has concluded that the error was not material to our financial statements, and accordingly the prior period presentation has been revised by reducing net cash from operating activities and net cash used for investing activities by approximately \$3.3 million. In addition, certain other amounts have been reclassified in the prior year's financial statements to conform with the current year's presentation.

2. Inventories. Inventories at September 30, 2005 and December 31, 2004 consisted of the following (in thousands):

	September 30, 2005	December 31, 2004
Finished goods	\$ 13,947	\$ 12,080
Work-in-process	5,521	3,643
Raw materials	10,231	7,373
Total	\$ 29,699	\$ 23,096

3. Reporting Comprehensive Income. Comprehensive income for the three and nine-month periods ended September 30, 2005 and 2004 consisted of net income and foreign currency translation adjustments. As of September 30, 2005 and December 31, 2004, such adjustments reduced stockholders' equity by \$388,875 and \$398,445, respectively. Comprehensive income for the three and nine-month periods ended September 30, 2005 and 2004 has been computed as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Net income	\$ 3,327	\$ 4,189	\$ 12,083	\$ 13,635
Foreign currency translation	1	(1)	10	(7)
Comprehensive income	\$ 3,328	\$ 4,188	\$ 12,093	\$ 13,628

4. Acquisitions. On March 11, 2005, we acquired substantially all of the assets of Sub-Q (including know-how and certain formulas, but excluding patents), in a purchase transaction for \$1,085,785, which included a \$1.0 million promissory note advanced to Sub-Q during 2004 which was applied to the purchase price. The purchase price was preliminarily allocated between fixed assets for \$174,203, other intangibles (know-how and formulas) for \$750,000 and goodwill for \$161,582. The acquisition was accounted for as a purchase in accordance with SFAS No. 141, *Business Combinations*. The amount allocated to goodwill will be reviewed annually for impairment or more frequently if impairment indicators arise, in accordance with SFAS No. 142. Sub-Q is a Delaware corporation, formed in June of 1998, and located in San Clemente, California. Sub-Q was involved in the development, manufacture and marketing of vascular sealing devices. In addition, Sub-Q was developing proprietary gel foam products that may be used as an embolic and/or to stop bleeding in many areas of health care

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including, among others, interventional cardiology and radiology, wound care, gynecology, emergency room procedures, and surgery. With the purchase of the Sub-Q assets, we plan to develop proprietary products to be used in interventional cardiology and radiology and, potentially, for additional medical applications.

5. Recently Issued Accounting Standards. In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123R. This Statement supersedes APB Opinion No. 25, and its related implementation guidance, is a revision of SFAS No. 123, and amends SFAS No. 95, *Statement of Cash Flows*. This revision of SFAS No. 123 eliminates the ability for public companies to measure share-based compensation transactions at the intrinsic value as allowed by APB Opinion No. 25, and requires that such transactions be accounted for based on the grant date fair value of the award. SFAS No. 123R also amends SFAS No. 95, to require that excess tax benefits be reported as a financing cash inflow rather than as a reduction of taxes paid. Under the intrinsic

value method allowed under APB Opinion No. 25, the difference between the quoted market price as of the date of the grant and the contractual purchase price of the share is charged to operations over the vesting period, and no compensation expense is recognized for fixed stock options with exercise prices equal to the market price of the stock on the dates of grant. Under the fair value based method as prescribed by SFAS No. 123R, we are required to charge the value of all newly granted stock-based compensation to expense over the vesting period based on the computed fair value on the grant date of the award. SFAS No. 123R does not specify a valuation technique to be used to estimate the fair value but states that the use of option-pricing models such as a lattice model (i.e. a binomial model) or a closed-end model (i.e. the Black-Scholes model) would be acceptable. The revised accounting for stock-based compensation requirements must be adopted no later than the beginning of the first annual reporting period that begins after June 15, 2005. We intend to adopt SFAS No. 123R effective January 1, 2006, using the modified prospective method, recording compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards that remain outstanding at the date of adoption. Currently, we do not recognize compensation expense for stock-based compensation. We are currently evaluating to what extent our equity instruments will be used in the future for employee compensation and the transition provisions of SFAS No. 123R; therefore, the impact to our financial statements of the adoption of SFAS No. 123R cannot be predicted with certainty.

In December 2004, the FASB issued Staff Position No. FAS 109-1, Application of FASB Statement No. 109, *Accounting for Income Taxes*, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004 (the "Act"). Accordingly, the FASB indicated that this deduction should be accounted for as a special deduction in accordance with FASB Statement No. 109. On January 1, 2005 we adopted the provisions of FAS 109-1. The adoption of FAS 109-1 did not have a material impact on our financial statements.

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

Disclosure Regarding Forward-Looking Statements

This Report includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements contained herein, other than statements of historical fact, are forward-looking statements for purposes of these provisions, including any projections of earnings, revenues or other financial items, any statements of the plans and objectives of management for future operations, any statements concerning proposed new products or services, any statements regarding future economic conditions or performance, and any statements of assumptions underlying any of the foregoing. All forward-looking statements included in this Report are made as of the date hereof and are based on information available to 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," "anticipates," "intends," "believes," "estimates," "potential," or "continue," 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 any such expectations or any forward-looking statement will prove to be correct. Our actual results may vary, and may vary materially, from those projected or assumed in the forward-looking statements. Future financial condition and results of operations, as well as any forward-looking statements, are subject to inherent risks and uncertainties, including, without limitation, market acceptance of our products, product introductions, potential product recalls, delays in obtaining regulatory approvals, or the failure to maintain such approvals, cost increases, fluctuations in and obsolescence of inventory, price and product competition, availability of labor and materials, development of new products and technology that could render our products obsolete, product liability claims, modification or limitation of governmental or private insurance reimbursement procedures, infringement of our technology or the assertion that our technology infringes the rights of other parties, foreign currency fluctuations, challenges associated with our growth strategy, changes in healthcare markets related to healthcare reform initiatives, and other factors referred to in our press releases and reports filed with the SEC, including our Annual Report on Form 10-K for the year ended December 31, 2004. All subsequent forward-looking statements attributable to Merit or persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. Additional factors that may have a direct bearing on our operating results are described under "Factors That May Affect Future Results" beginning on page 13 below.

Overview

For the quarter ended September 30, 2005, we reported revenues of \$41.2 million, up 16% over the three months ended September 30, 2004. Revenues for the nine months ended September 30, 2005 were a record \$123.9 million, compared with \$112.1 million for the same nine months in 2004, an increase of 11%.

Gross margins were down to 40.8% and 42.4% of sales for the three and nine-month periods ended September 30, 2005, respectively, when compared to 44.5% and 44.8% of sales for the three and nine-month periods ended September 30, 2004, respectively. This decline resulted primarily from negative margins in the new procedure tray business acquired from MedSource Packaging Concepts ("MedSource") in Richmond, Virginia. The decline in gross margins also resulted from a wage increase for direct labor, the start-up of new facilities and an associated increase in overhead expense in our South Jordan, Utah facility.

Net income decreased for the three month period ended September 30, 2005 to \$3.3 million, compared to \$4.2 million for the prior year's period. For the nine-month period ended September 30, 2005 net income decreased to \$12.1 million, compared to \$13.6 million for the prior year's period. When compared to the prior year's periods, net income for the three and nine-month periods ended September 30, 2005 was negatively affected by lower gross margins, higher research and development spending, and selling, general and administrative expenses, and positively affected by increased sales.

We have made significant investments toward the completion of our new molding and finished goods warehouse in South Jordan, Utah, which were completed in September, 2005, and the purchase of a new facility in Chester, Virginia, for the Medsource procedure tray business that we acquired during the fourth quarter of 2004. These facilities are needed to meet production demands for anticipated future sales growth and the release of seven new

products during 2005. We anticipate that costs associated with these new buildings, (ie. depreciation, utilities, maintenance and taxes) will affect our gross margins and net income for a period of time until overhead expense can be absorbed through increased sales. Net income will also be affected by the increased costs in our sales force and research and development expenditures. During the third quarter of 2005, we released our Backstop® Plus safety device, which is the third of seven new products anticipated for release in 2005. Previous product launches this year include two products, the Prelude™

sheath introducer and the Viceroy™ inflation device. We believe the market acceptance of our new and existing products, if achieved, will further enhance our future top and bottom-line growth.

Results of Operations

The following table sets forth certain operational data as a percentage of sales for the three and nine-month periods ended September 30, 2005 and 2004:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Sales	100.0%	100.0%	100.0%	100.0%
Gross profit	40.8	44.5	42.4	44.8
Selling, general and administrative expenses	24.3	23.8	23.4	23.0
Research and development expenses	4.3	3.4	4.1	3.3
Income from operations	12.1	17.3	14.8	18.5
Other income	0.2	0.3	0.3	0.4
Net income	8.1	11.8	9.8	12.2

Sales. Sales for the three months ended September 30, 2005 increased by 16%, or approximately \$5.7 million, compared to the same period of 2004. Sales for the nine months ended September 30, 2005 increased by 11%, or approximately \$11.8 million, compared to the same period of 2004. We report sales in five product categories. Listed below are the sales relating to these product categories for the three and six-month periods ended September 30, 2005 and 2004:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	% Change	2005	2004	% Change	2005	2004
Inflation devices	7%	\$ 12,726	\$ 11,908	6%	\$ 38,574	\$ 36,539
Custom kits	11%	11,187	10,063	9%	34,812	32,051
Stand-alone devices	18%	11,797	9,959	8%	35,414	32,787
Catheters	21%	4,301	3,546	17%	12,546	10,682
Procedure trays		1,213			2,557	
Total	16%	\$ 41,224	\$ 35,476	11%	\$ 123,903	\$ 112,059

Sales growth for the three and nine-month periods ended September 30, 2005, was favorably affected by an approximate two percent increase due to the introduction of new products, an approximate three percent increase for the quarter, an approximate two percent increase for the nine month period due to MedSource procedure tray business we acquired during the fourth quarter of 2004, and the remainder resulting primarily from procedural growth as the result of an aging population and market share gains. Substantially all of the increase in revenues was attributable to increased unit sales as the markets for many of our products are experiencing slight pricing declines.

Gross Profit. Gross margins were down to 40.8% and 42.4% of sales for the three and nine-month periods ended September 30, 2005, respectively, when compared to 44.5% and 44.8% of sales for the three and nine-month periods ended September 30, 2004, respectively. This decline in gross margins for the three and nine-month periods ended September 30, 2005, resulted primarily from negative margins in the new procedure tray business acquired from MedSource during the fourth quarter of 2004. The effect was a reduction of gross margins by 1.9% and 1.5%, respectively. We believe that these negative margins will continue until sales volumes increase to

cover overhead costs. Gross margins may decrease over time depending upon the growth rate of this lower margin business. The decline in gross margins also resulted from a wage increase for direct labor, the start-up of new facilities, an increase in overhead expense in our South Jordan, Utah facility, and costs associated with the mandatory shut-down of our Angleton, Texas facility due to Hurricane Rita.

Operating Expenses. Selling, general and administrative expenses increased to 24.3% of sales for the three months ended September 30, 2005, compared with 23.8% of sales for the three months ended September 30, 2004. The increase in selling, general and administrative expenses related primarily to severance payments to former employees, resulting in total incremental expenses of approximately \$318,000, the hiring of 17 additional sales people, and sample expense related to new product introductions. For the nine months ended September 30, 2005, selling, general and administrative expenses increased slightly to 23.4% compared with 23.0% of sales for the nine months ended September 30, 2004. The increase in selling, general and administrative expenses as a percentage of sales during the nine months ended September 30, 2005, was due primarily to costs associated with severance for employees (\$473,000), the buy-out of a distribution agreement (\$200,000), the hiring of 17 additional sales people, and the sample expense related to new product introductions. Research and development expenses increased to 4.3% and 4.1% of sales for the three and nine-month periods ended September 30, 2005, respectively, compared to 3.4% and 3.3% of sales for the three and nine-month periods ended September 30, 2004, respectively. This increase was primarily attributable to additional headcount and expenses associated with our increased efforts to launch new products during 2005 and into the future.

Other Income. Other income for the third quarter of 2005 was approximately \$86,000, compared to approximately \$103,000 for the same period in 2004. The decrease in other income during the third quarter of 2005, when compared to the same period in 2004, was primarily the result of a decrease in interest income due to a lower cash balance from expenditures for the construction of our new facilities. Other income for the nine months ended September 30, 2005 was approximately \$370,000, compared to approximately \$450,000 for the same period in 2004. The decrease in other income for the nine months ended September 30, 2005 when compared to the same period in 2004 was primarily the result of a gain from the settlement of a legal dispute of \$100,000 in 2004. Absent this legal settlement, other income for the nine months ended September 30, 2005 would have increased compared to the prior year's period primarily as the result of an increase in interest income of approximately \$24,000, when compared to the same period in 2004.

Income Taxes. Our effective tax rate for the three months ended September 30, 2005 was 34.6%, compared to 32.7% for the same period of 2004. For the nine months ended September 30, 2005, our effective tax rate was 35.6%, compared to 35.7% for the same period in 2004. The increase in the effective tax rate for the three months ended September 30, 2005 was principally the result of smaller permanent tax adjusted differences between our 2004 income tax provision to our final 2004 return adjusted for in the third quarter of 2005, when compared to adjustments made for our 2003 income tax return to 2003 provision adjusted for in the third quarter of 2004.

Income. During the third quarter of 2005, we reported income from operations of \$5.1 million, a decrease of 18.3% from \$6.1 million for the comparable period in 2004. For the nine months ended September 30, 2005, we reported income from operations of \$18.4 million, a decrease of 11.4% from \$20.8 million for the comparable period in 2004. The decrease in income from operations for the three and nine-month periods ended September 30, 2005 was primarily the result of lower gross margins, an increase in research and development expenditures, and higher selling, general and administrative expenses when compared to the prior year's periods, partially offset by increased sales volumes. These factors contributed to lower net income of \$3.3 and \$4.2 million for the three and nine-month periods ended September 30, 2005, respectively, compared to net income of \$12.1 million and \$13.6 million for the same periods of 2004.

Liquidity and Capital Resources

Our working capital as of September 30, 2005 and December 31, 2004 was \$41.5 million and \$54.9 million, respectively. The decrease in working capital was, in part, the result of cash being used to fund the construction of our new facilities in South Jordan, Utah. As of September 30, 2005, we had a current ratio of 2.8 to 1. We had \$0 outstanding under our line of credit at September 30, 2005. We generated cash from operations for the nine months ended September 30, 2005 in the amount of \$10.2 million. We maintain a long-term revolving credit facility (the "Facility") with a bank, which currently enables us to borrow funds at variable interest rates. The Facility was voluntarily reduced to \$500,000 in August 2002. The Facility expires on June 30, 2006. Based on

discussions with representatives of the bank, we believe we could currently restore the Facility to its former level of \$35 million, subject to a favorable credit review.

Historically, we have incurred significant expenses in connection with product development and introduction of new products. Substantial capital has also been required to finance the increase in our receivables and inventories associated with our increased sales. During the nine months ended September 30, 2005, we paid approximately \$13.3 million for progress payments on our facilities under construction in South Jordan, Utah. In addition, during the nine months ended September 30, 2005, we spent approximately \$3.8 million to purchase a 102,000 square foot facility in Chester, Virginia, \$600,000 to add a cleanroom, and \$1.5 million to purchase 7 acres of land just west of our current South Jordan, Utah facilities. We still have approximately \$1.3 million remaining to be paid to complete the cafeteria expansion in South Jordan, Utah. We anticipate that an additional \$2.5 million, in excess of our 2004 annual capital expenditures, will be spent on other production equipment for these new facilities. Our principal source of funding for these and other expenses has been cash generated from operations, sales of equity, cash from loans on equipment, and bank lines of credit. We currently believe that our present sources of liquidity and capital are adequate for current operations and for the foreseeable future.

Critical Accounting Policies and Estimates

The SEC has requested that all registrants address their most critical accounting policies. The SEC has indicated that a "critical accounting policy" is one which is both important to the representation of the 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 we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Additionally, changes in accounting estimates could occur in the future from period to period. Our management has discussed the development and selection of our most critical financial estimates with the audit committee of our Board of Directors. The following paragraphs identify our most critical accounting policies:

Inventory Obsolescence Reserve: Our management reviews on a regular basis inventory quantities on hand for unmarketable and/or slow moving products that may expire prior to being sold. This review of inventory quantities for unmarketable and/or slow moving products is based on estimates of forecasted product demand prior to expiration lives. If market conditions become less favorable than those projected by management, additional inventory write-downs may be required. We believe that the amount included in our obsolescence reserve has been a historically accurate estimate of the unmarketable and/or slow moving products that may expire prior to being sold. Our obsolescence reserve was approximately \$1.9 million as of September 30, 2005.

Allowance for Doubtful Accounts: A majority of our receivables are with hospitals, which over our history, have demonstrated favorable collections. Therefore, we have experienced relatively minimal bad debts from hospital customers. In limited circumstances we have also written off minimal bad debts as the result of the termination of foreign distributors. The most significant write-offs over our history have come from U.S. packers who bundle our products in surgical trays.

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. The allowance is based upon historical experience and a review of individual customer balances. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Our bad debt reserve was \$720,170 at September 30, 2005, which is generally in line with our historical collection experience.

Stock-Based Compensation: We account for stock compensation arrangements under the intrinsic value method outlined in APB Opinion No. 25, and currently intend to continue to do so until we adopt the provisions of SFAS No. 123R. Please see the discussion of this issue in Note 1 to our Consolidated Financial Statements, under the heading: *Stock-Based Compensation*.

Factors That May Affect Future Results

Our business, operations and financial condition are subject to certain risks and uncertainties. Should one or more of these risks or uncertainties materialize, or should any underlying assumptions prove incorrect, our actual results will vary, and may vary materially, from those anticipated, estimated, projected or expected. The following is a summary of some of the key factors, discussed in more detail in our Annual Report on Form 10-K for the year ended December 31, 2004, that may have a direct bearing on our business, operations and financial condition:

- We may be unable to compete in our markets, particularly if there is a significant change in relevant procedures or technology, or an increase in competitive pressures;
- Our products may be subject to recall or product liability claims;
- We may be unable to successfully manage growth, particularly if accomplished through acquisitions;
- A significant adverse change in, or failure to comply with, governing regulations could adversely affect our business;
- Since a significant portion of our revenues are derived from a few products and procedures, their restrictions, limitations, or a decrease in demand for those products or procedures, could negatively affect our results of operation or financial condition;
- Termination of relationships with our suppliers, or failure of such suppliers to perform, could disrupt our business;
- We may be unable to protect our proprietary technology, or our technology may infringe on the proprietary technology of others;
- Limits on reimbursement imposed by governmental and other programs may adversely affect our business;
- Fluctuations in Euro and GBP exchange rates may negatively impact our financial results;
- The market price of our common stock has been, and may continue to be, volatile;
- We are subject to work stoppage, transportation and related risks;
- We are dependent upon key personnel.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our principal market risk relates to changes in the value of the Euro and GBP relative to the value of the U.S. Dollar. Our consolidated financial statements are denominated in, and our principal currency is, the U.S. Dollar. A portion of our revenues (\$4.6 million, representing approximately 11.1% of aggregate revenues), for the three months ended September 30, 2005 was attributable to sales that were denominated in Euros and GBPs. Certain of our expenses are also denominated in Euros and GBPs, which partially offsets risks associated with fluctuations of exchange rates between the Euro and GBP on the one hand, and the U.S. Dollar on the other hand. Because of our Euro and GBP-denominated revenues and expenses, in a year in which our Euro and GBP-denominated revenues exceed our Euro and GBP-based expenses, the value of such Euro and GBP-denominated net income increases if the value of the Euro and GBP increase relative to the value of the U.S. Dollar, and decreases if the value of the Euro and GBP decrease relative to the value of the U. S. Dollar. During the three months ended September 30, 2005, the exchange rate between the Euro and GBP against the U.S. Dollar resulted in an increase of our gross revenues of approximately \$16,000 and 0.03% in gross profit.

At September 30, 2005, we had a net exposure (representing the difference between Euro and GBP denominated receivables and Euro and GBP denominated payables) of approximately \$1.5 million and \$322,000, respectively. In order to partially offset such risks, at August 31, 2005, we entered into 30-day forward Euro and GBP hedge contracts. We generally enter into similar economic hedging transactions at various times during the year to partially offset exchange rate risks we bear throughout the year. We do not purchase or hold derivative financial instruments for speculative or trading purposes. During the three and nine-month periods ended September 30, 2005, we experienced a net gain/(loss) of approximately \$7,000 and (\$33,000), respectively, on hedging transactions we executed during the three and nine-month periods ended September 30, 2005 in an effort to limit our exposure to fluctuations in the Euro and GBP against the U.S. Dollar exchange rate.

As of September 30, 2005, we had no variable rate debt. As long as we do not have variable rate debt, our interest expense would not be affected by changes in interest rates.

ITEM 4. CONTROLS AND PROCEDURES

An evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of our disclosure controls and procedures, as of September 30, 2005. Based on that evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed in reports we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported as specified in the SEC's rules and forms. There was no change in our internal control over financial reporting during the quarter ended September 30, 2005 that materially affected, or that we believe is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 6. EXHIBITS

Exhibit No.	Description
10.15	Severance Agreement dated August 1, 2005 between the Company and Bryan Lampropoulos
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

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 8, 2005

/s/ Fred P. Lampropoulos
FRED P. LAMPROPOULOS
PRESIDENT AND CHIEF EXECUTIVE
OFFICER

Date: November 8, 2005

/s/ Kent W. Stanger
KENT W. STANGER
CHIEF FINANCIAL OFFICER

**Severance Agreement Dated August 1, 2005
Between the Company and Bryan Lampropoulos**

CONSULTING AGREEMENT AND RELEASE OF ALL CLAIMS

THIS CONSULTING AGREEMENT AND RELEASE OF ALL CLAIMS (the "Agreement") is entered into between Merit Medical Systems, Inc., a Utah corporation ("Employer"), and Bryan Lampropoulos ("Consultant") (together the "Parties").

Definitions

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

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

Background

Employer terminated Consultant's employment, effective August 1, 2005 (the "Termination Date"). By this Agreement, and the sums to be paid for the benefit of Consultant, the Parties intend to (1) enter into a consulting agreement effective August 1, 2005 for a one-year term; and (2) to resolve any and all disputes of any kind or character, if any, between them, including without limitation any and all disputes arising from or related to Consultant's employment with Employer or any Affiliate, the termination of that employment, or otherwise. Accordingly, Employer and Consultant hereby agree as follows:

Agreement

1. Consulting Services. Employer desires to engage Consultant to provide certain consulting services that pertain to Employer's international and OEM business, including without limitation, providing pricing, customer information, customer introductions, marketing information, and product configurations and any other related information reasonably requested by Employer ("Consulting Services"). Consultant agrees to be available by telephone upon Employer's reasonable request for the purpose of transitioning the international and OEM business ("Professional Services"). Consultant shall perform his obligations hereunder as an independent contractor, and nothing contained herein shall be deemed to create a relationship of employer-employee, master-servant, agency, partnership or joint venture. Consultant shall have no authority to bind Employer to any agreements or other commitments. Consultant shall not, explicitly or implicitly, give any appearance of having specific or apparent authority to bind Employer to any agreements or other commitments.

2. Term. Consultant agrees to perform the Consulting Services for a one-year period commencing August 1, 2005 until July 31, 2006 ("Term").

3. Payment to Consultant.

a. Employer shall pay Consultant the total sum of Four Hundred Fifty Thousand Dollars (\$450,000) during the Term ("Payment Amount"), payable in 26 equal, bi-weekly installments in the amount of \$17,307.70. The bi-weekly installments shall commence on Employer's first regular payroll date immediately following the Termination Date and continuing thereafter until paid in full (the "Payout Period"). The Payment Amount shall be calculated as follows: In consideration for the promises and covenants of Consultant under

Sections 7, 8, 9, and 10, Employer shall pay to Consultant \$360,000. In consideration for Consulting Services under Section 1, Employer shall pay Consultant \$90,000.

b. If Consultant properly elects continuation coverage under Employer's group medical and/or dental insurance plan pursuant to Sections 601 through 607 of the Consultant Retirement Income Security Act of 1974, as amended ("COBRA"), Employer will pay that portion of the premium which Employer paid on behalf of Consultant and Consultant's enrolled family members prior to the Termination Date through the earlier of (a) August 31, 2007; (b) the date Consultant first becomes eligible for coverage under any group health plan maintained by another employer of Consultant or his spouse; or (c) the date such COBRA continuation coverage otherwise terminates as to Consultant under the provisions of Employer's group medical insurance plan. Nothing herein shall be deemed to extend the otherwise applicable maximum period in which COBRA continuation coverage is provided or supersede the plan provisions relating to early termination of such COBRA continuation coverage. Consultant agrees that his portion of the premium for such coverage, if any, shall be deducted from the payments payable to Consultant under Section 1.a. above.

c. Payment of any monies to or on behalf of Employer under this Section 3 shall be subject to all applicable federal, state and local payroll withholding taxes.

d. Consultant will not be reimbursed for any expenses incurred in connection with the performance of this Agreement, unless approved in advance and in writing by an authorized representative of Merit.

4. Review and Revocation. Consultant understands and agrees that he has 21 days from the date he receives this Agreement to consider the terms of and to sign this Agreement. Consultant understands that, at his sole and absolute discretion, he may sign this Agreement prior to the expiration of the 21-day period.

Consultant further acknowledges and understands that he may revoke this Agreement for a period of up to 7 days after he signs it (not counting the day it was signed) and that the Agreement shall not become effective or enforceable until the 7-day revocation period has expired. To revoke this Agreement,

Consultant must give written notice stating that he wishes to revoke the Agreement to General Counsel, Merit Medical Systems, Inc., 1600 Merit Drive, South Jordan, UT 84095, Telefax: 801/208-4302. If Consultant mails a notice of revocation to Employer, it must be postmarked no later than 7 days following the date on which he signed this Agreement (not counting the day it was signed) or such revocation shall not be effective.

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

The release, discharge, and agreement to hold harmless set forth in this Section 5 includes without limitation any Claim(s) that Consultant has, had, or may claim to have against Releasees (a) for wrongful termination or discharge, negligent or intentional infliction of emotional distress, breach of express or implied contract of employment, any other written or oral agreement of any type or kind, or otherwise, breach of the covenant of good faith and fair dealing, defamation, breach of privacy, whistleblowing, employment-related torts, negligence, or personal injury (whether physical or mental); (b) for any Claim(s) arising under federal or state law, including without limitation Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1991, the Americans with Disabilities Act, the Age Discrimination in Employment Act, the Utah Antidiscrimination Act, or any other federal, state, or local law prohibiting discrimination or harassment on the basis of race, color, religion, sex, age, national origin, disability, or any other protected group status; (c) for any Claim(s) arising under the Consultant Retirement Income Security Act ("ERISA"), (d) for any Claim(s) arising under the Family and Medical Leave Act or any similar family, medical, school, or other leave law under any Utah state, county, or city law or ordinance; (e) for any Claim(s) for attorney's fees or costs, and (f) for any other Claim(s) in any way related to or arising out of Consultant's employment with Employer or the termination of that employment.

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

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6. Full and Complete Release. Consultant understands and agrees that he is releasing and waiving Claim(s) that he does not know exist or may exist in his favor at the time he signs this Agreement which, if known by him, would materially affect his decision to sign this Agreement. Nonetheless, for the purpose of implementing a full and complete release and discharge of Releasees, Consultant expressly acknowledges that the release set forth in Section 3 is intended to include in its effect, without limitation, all Claim(s) which Consultant does not know or suspect to exist in his favor and that the release set forth in Section 5 contemplates the extinguishment of any such Claim(s).

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

For purposes of this Agreement, "Confidential Information" means individually or in any combination thereof, all names, addresses, telephone numbers, contact persons, and other identifying and confidential information about persons, firms, corporations, and/or other entities that are or become customers, accounts, licensors, vendors, and/or suppliers of goods or services to or of Employer; customer lists; details of client or consultant contracts; details of customer usage; non-public pricing policies; operational methods; marketing plans or strategies; product and program developments and plans; research projects; technology and technical processes; business acquisition plans; personnel information and plans, including without limitation compensation and contract terms; methods of production; inventions; improvements; designs; original works of authorship; derivative works; formulas; processes; compositions of matter; computer software and related information, including without limitation programs, code, concepts, methods, routines, formulas, algorithms, designs, specifications, architectures, or inventions embodied therein, as well as all data, documentation, and copyrights related thereto; patent applications; databases; mask works; trade secrets; know-how; ideas; service marks; planned or proposed Website ideas and plans, including but not limited to look and feel; and other intellectual property or proprietary information rights and any and all rights, applications, extensions and renewals in connection therewith (either proposed, filed, or in preparation for filing); and financial information and general confidential business information of the Employer. Such information is confidential and unique, not generally known in the industry, and gives the Employer a competitive advantage and significantly enhances the Employer's goodwill.

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

8. Covenant Not to Provide Services / Solicit Existing Customers. Consultant acknowledges the character of Employer's business and the substantial amount of time, money, and effort that Employer has spent and will spend in recruitment of clients, customers, and/or accounts. As a material term of this Agreement and to protect the goodwill, the Confidential Information, and the business of Employer, Consultant covenants that, from the date of this Agreement for a period of two (2) years, Consultant shall not, anywhere in the United States, either individually or on behalf of or with any person or entity, directly or indirectly (a) provide services relating to the manufacture or sale of medical devices or equipment of the type and kind manufactured and/or sold by Employer to any individual or entity that was a customer, client, or account of Employer at the time Consultant's employment with Employer terminated or at any time during two (2) year period immediately preceding such termination, (b) solicit or otherwise attempt to sell medical devices or equipment of the type and kind manufactured and/or sold by Employer to any individual or entity that was a customer, client, or account of Employer at the time Consultant's employment with Employer terminated or at any time during the two (2) year period immediately preceding such termination, (c) solicit or otherwise attempt to sell medical devices or equipment of the type and kind manufactured and/or sold by Employer to any individual or entity that was a prospective customer, client, or account whose business Consultant solicited as a representative of or on behalf of

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

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

10. Limited Covenant Not to Compete. As a material term of this Agreement and to protect the goodwill, the Confidential Information, and/or the business of Employer, and Employer's investment in the training and education of Consultant, Consultant agrees that, during the "Covenant Period" (as defined below), Consultant shall not, anywhere within the State of Utah, directly or indirectly, either individually or on behalf of or with any person or entity: (i) compete with or against Employer or engage in any aspect of the medical device industry in competition with Employer; (ii) directly or indirectly own, manage, operate, control, be employed by, or provide management or consulting services to any person or entity (other than Employer or any affiliate of Employer) that competes with, or is a competitor of, Employer ("Competing Entity"); (iii) discuss the possibility of employment or other relationship with any Competing Entity; (iv) render or provide any services to or for any Competing Entity; or (v) discuss or otherwise deal with any client or vendor of Employer regarding the extent or nature of the present or future business of any client or vendor with Employer. For purposes of this Agreement, "Covenant Period" means the period beginning on the date of this Agreement and continuing for two years (2) years.

11. Remedies. In the event that Consultant fails to perform any obligations set forth in Section 7 "Covenant of Confidentiality," Section 8 "Covenant Not to Provide Services / Solicit Existing Customers," Section 10 "Limited Covenant Not to Compete," or Section 15 "Nondisparagement," then Consultant agrees that he will reimburse Employer for all amounts paid by Employer. The foregoing remedies are in addition to other remedies that may be available to Employer under law.

12. Resignation as Officer. Consultant hereby resigns as an officer of Employer or any Affiliate, effective August 1, 2005.

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

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

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

16. Not an Admission. This Agreement does not constitute an admission by Releasees, and Releasees specifically deny, that Releasees have violated any contract, law, or regulation or that they, it, or s/he

has discriminated against Consultant or otherwise infringed on Consultant's rights and privileges or done any other wrongful act.

17. Severability. If a court of competent jurisdiction shall find that the provisions of Sections 5,7,8 and 10 of this Agreement are unenforceable, whether in whole or in part, then Employer shall have the right, at its sole option and to the extent allowed by applicable law, to rescind this Agreement and to cease any payments due and/or to recover from Consultant all sums paid by Employer to Consultant under Section 1 of this Agreement. Except as set forth in the immediately preceding sentence, if any part of this Agreement is found to be unenforceable, the other provisions shall remain fully valid and enforceable. It is the intention and agreement of the parties that all of the terms and conditions hereof be enforced to the fullest extent permitted by law.

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

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

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

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

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

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

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

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

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"EMPLOYEE"

DATED: _____

Bryan Lampropoulos

"EMPLOYER"

Merit Medical Systems, Inc.,
a Utah corporation,

DATED: _____

By: _____

Its: _____

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CERTIFICATION

I, Fred P. Lampropoulos, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Merit Medical Systems, Inc. for the quarter ended September 30, 2005;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of and for the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible 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 officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2005

/s/ Fred P. Lampropoulos

Fred P. Lampropoulos

President and Chief Executive Officer

CERTIFICATION

I, Kent W. Stanger, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Merit Medical Systems, Inc. for the quarter ended September 30, 2005;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of and for the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible 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 officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2005

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

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

In connection with this quarterly report on Form 10-Q of Merit Medical Systems, Inc. for the quarter ended September 30, 2005, I, Fred P. Lampropoulos, Chief Executive Officer of Merit Medical Systems, Inc., certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The report fully complies with the requirements of Section 13(a) or 15 (d) of the Securities Exchange Act of 1934; and
- (2) The information contained in this report fairly presents, in all material respects, the financial condition and results of operations of Merit Medical Systems, Inc.

Date: November 8, 2005

/s/ Fred P. Lampropoulos

Fred P. Lampropoulos

President and Chief Executive Officer

This certification accompanies the foregoing report 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 registrant and will be retained by the registrant and furnished to the Securities and Exchange Commission or its staff upon request.

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

In connection with this quarterly report on Form 10-Q of Merit Medical Systems, Inc. for the quarter ended September 30, 2005, I, Kent W. Stanger, Chief Financial Officer of Merit Medical Systems, Inc., certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The report fully complies with the requirements of Section 13(a) or 15 (d) of the Securities Exchange Act of 1934; and
- (2) The information contained in this report fairly presents, in all material respects, the financial condition and results of operations of Merit Medical Systems, Inc.

Date: November 8, 2005

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

This certification accompanies the foregoing report 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 registrant and will be retained by the registrant and furnished to the Securities and Exchange Commission or its staff upon request.
