SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2008.**
	OR
o	**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)	(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 x No o

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

Large Accelerated Filer o	Accelerated Filer x
Non-Accelerated Filer o	Smaller Reporting Company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

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

Common Stock	**27,873,893**
Title or class	Number of Shares Outstanding at July 29, 2008

Table of Contents

MERIT MEDICAL SYSTEMS, INC.

INDEX TO FORM 10-Q

		PAGE
PART I.	**FINANCIAL INFORMATION**	
Item 1.	Financial Statements	
	Consolidated Balance Sheets as of June 30, 2008 and December 31, 2007	1
	Consolidated Statements of Operations for the three and six months ended June 30, 2008 and 2007	3
	Consolidated Statements of Cash Flows for the six months ended June 30, 2008 and 2007	4
	Notes to Consolidated Financial Statements	7
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	12
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	15
Item 4.	Controls and Procedures	16
PART II.	**OTHER INFORMATION**	
Item 1. Legal Proceedings		16
Item 1A. Risk Factors		16
Item 4. Submission of Matters to a Vote of Security Holders		17
Item 6. Exhibits		17
SIGNATURES		18

Table of Contents

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

JUNE 30, 2008 AND DECEMBER 31, 2007

(In thousands - unaudited)

	June 30, 2008	December 31, 2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 26,756	$ 17,574
Trade receivables - net of allowances of $515 and $497, respectively	25,212	26,619
Employee receivables	130	144
Other receivables	800	1,140
Inventories	36,274	34,106
Prepaid expenses and other assets	1,655	1,297
Deferred income tax assets	2,087	811
Income tax refunds receivable	350	297
Total current assets	93,264	81,988
PROPERTY AND EQUIPMENT:		
Land and land improvements	7,977	7,977
Building	49,125	43,147
Manufacturing equipment	65,708	61,448
Furniture and fixtures	17,811	17,110
Leasehold improvements	9,941	9,870
Construction-in-progress	6,692	10,680
Total	157,254	150,232
Less accumulated depreciation and amortization	(54,659)	(50,536)
Property and equipment net	102,595	99,696
OTHER ASSETS:		
Other intangibles - net of accumulated amortization of $2,671 and $2,171, respectively	6,429	6,163
Goodwill	11,680	9,527
Deferred compensation assets	3,053	2,964
Deferred income tax assets	336	4
Deposits	78	78

Total other assets		21,576		18,736
TOTAL ASSETS	$	217,435	$	200,420

See notes to consolidated financial statements.

Table of Contents

MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

JUNE 30, 2008 AND DECEMBER 31, 2007

(In thousands - unaudited)

	June 30, 2008	December 31, 2007
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Trade payables	$ 11,709	$ 10,275
Other payables	1,500	
Accrued expenses	10,856	9,492
Advances from employees	341	267
Liabilities related to unrecognized tax positions		1,023
Income taxes payable	846	737
Total current liabilities	25,252	21,794
DEFERRED INCOME TAX LIABILITIES	6,511	6,082
LIABILITIES RELATED TO UNRECOGNIZED TAX POSITIONS	2,588	2,588
DEFERRED COMPENSATION PAYABLE	3,207	3,063
DEFERRED CREDITS	2,052	2,105
OTHER LONG-TERM OBLIGATIONS	371	420
Total liabilities	39,981	36,052
STOCKHOLDERS EQUITY:		
Preferred stock 5,000 shares authorized as of June 30, 2008, no shares issued		
Common stock no par value; 50,000 shares authorized; 27,635 and 27,413 shares issued at June 30, 2008 and December 31 2007, respectively	55,272	52,477
Retained earnings	122,082	111,947
Accumulated other comprehensive income (loss)	100	(56)
Total stockholders equity	177,454	164,368
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 217,435	$ 200,420

See notes to consolidated financial statements.

Table of Contents

MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2008 AND 2007

(In thousands and unaudited)

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
NET SALES	$ 57,441	$ 51,811	$ 110,994	$ 102,841
COST OF SALES	32,939	32,275	64,900	64,447
GROSS PROFIT	24,502	19,536	46,094	38,394
OPERATING EXPENSES:				
Selling, general, and administrative	12,839	11,858	25,911	23,873
Research and development	2,654	2,207	4,570	4,571
Total operating expenses	15,493	14,065	30,481	28,444
INCOME FROM OPERATIONS	9,009	5,471	15,613	9,950
OTHER INCOME (EXPENSE):				
Interest income	162	63	312	152
Other (expense)	(16)	(1)	(21)	(2)
Other income - net	146	62	291	150
INCOME BEFORE INCOME TAXES	9,155	5,533	15,904	10,100
INCOME TAX EXPENSE	3,337	1,937	5,769	3,535
NET INCOME	$ 5,818	$ 3,596	$ 10,135	$ 6,565
EARNINGS PER COMMON SHARE:				
Basic	$ .21	$ .13	$ .37	$ .24
Diluted	$ .21	$ .13	$ .36	$ .23
AVERAGE COMMON SHARES:				
Basic	27,603	27,727	27,547	27,690
Diluted	28,325	28,480	28,311	28,549

See notes to consolidated financial statements.

Table of Contents

MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007

(In thousands and unaudited)

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 10,135	$ 6,565
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,113	4,540
Losses on sales and/or abandonment of equipment	209	70
Write-off of a certain patent and license agreement	77	35
Amortization of deferred credits	(53)	(73)
Deferred income taxes	(1,277)	497
Stock-based compensation	337	396
Tax benefit attributable to appreciation of common stock options exercised	(310)	(178)
Changes in operating assets and liabilities net of effects from acquisitions:		
Trade receivables	1,664	831
Employee receivables	18	58
Other receivables	377	(563)
Inventories	(2,006)	996
Prepaid expenses and other assets	(347)	(666)
Income tax refund receivable	(38)	(103)
Deposits		6
Trade payables	1,301	(1,703)
Accrued expenses	1,254	1,288
Advances from employees	66	64
Income taxes payable	411	954
Liabilities related to unrecognized tax positions	(1,023)	329
Other long-term obligations	(49)	93
Total adjustments	5,724	6,871
Net cash provided by operating activities	15,859	13,436
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures for:		
Property and equipment	(7,931)	(7,426)
Patents and trademarks	(139)	(58)
Increase in deferred compensation assets	(90)	(265)
Proceeds from the sale of equipment	25	9
Cash paid in acquisitions	(1,509)	(3,479)
Net cash used in investing activities	(9,644)	(11,219)

See notes to consolidated financial statements.

4

Table of Contents

	Six Months Ended June 30, 2008		2007	
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from:				
Issuance of common stock	$	2,148	$	993
Common stock repurchased and retired				(4,206)
Increase in deferred compensation payable		144		153
Excess tax benefits from stock-based compensation		310		178
Net cash provided by (used by) financing activities		2,602		(2,882)
EFFECT OF EXCHANGE RATES ON CASH		365		108
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		9,182		(557)
CASH AND CASH EQUIVALENTS:				
Beginning of period		17,574		9,838
End of period	$	26,756	$	9,281
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION Cash paid during the period for:				
Interest	$	5	$	4
Income taxes	$	7,609	$	1,852

SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

During the six months ended June 30, 2008, we entered into an asset purchase and supply agreement with Micrus Endovascular Corporation (Micrus), to a Delaware corporation purchase three catheter platforms for $3.0 million dollars. We paid Micrus $1.5 million in January 2008 and have accrued an additional $1.5 million in other payables, which is payable within one year from the closing date. We have paid $9,300 in acquisitions costs and have accrued an additional $3,000. The purchase price was preliminarily allocated to inventory for $161,745, other intangibles (customer relationships) for $320,000, developed technology for $370,000, a covenant not to compete for $30,000, and goodwill for $2,130,555.

Fair value of assets acquired (including goodwill of $2,130,555)	$	3,012,300
Cash paid		(1,509,300)
Accrued purchase price		(1,503,000)
Liabilities assumed		None

See notes to consolidated financial statements.

Table of Contents

During the six months ended June 30, 2007, we acquired other intangibles (Customer Relationships) of Medrad, a Swedish Company, in a purchase transaction for $124,036. The purchase price was allocated to other intangibles (Customer Relationships) for $124,036.

Fair value of assets acquired	$	124,036
Cash paid		(124,036)
Liabilities assumed		None

During the six months ended June 30, 2007, we entered into a distribution agreement with Milamy Partners LLC (Milmay), a Maine corporation, wherein we purchased the exclusive, worldwide right to distribute their Kanguru Abdominal Retraction System in the vascular lab markets for $350,000. As a part of the distribution agreement, we received a customer list for the distribution agreements terminated by Milamy for their domestic and international sales to vascular labs. The purchase price was preliminarily allocated to other intangibles (customer relationships) for $350,000.

Fair value of assets acquired	$	350,000
Cash paid		(350,000)
Liabilities assumed		None

During the six months ended June 30, 2007, we entered into an asset purchase agreement with Datascope Corporation, a New Jersey corporation, to purchase its ProGuide catheter in a purchase transaction for $3,284,681, including future minimum royalty payments of $279,181. In connection with this agreement we acquired assets, inventory, a customer list, patents and a trademark. The purchase price was allocated to fixed assets for $50,844, inventory for $806,507, a customer list for $230,000, patents for $480,000, a trademark for $130,000, a covenant not to compete for $60,000 and goodwill for $1,527,330.

Fair value of assets acquired (including goodwill of $1,527,330)	$	3,284,681
Cash paid		(3,005,500)
Liabilities assumed	$	(279,181)

See notes to consolidated financial statements.

Table of Contents

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 six-month periods ended June 30, 2008 and 2007 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 June 30, 2008, and our results of operations and cash flows for the three and six-month periods ended June 30, 2008 and 2007. The results of operations for the three and six-month periods ended June 30, 2008 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, 2007 filed with the Securities and Exchange Commission (the SEC).

2. **Inventories**. Inventories are stated at the lower of cost or market. Inventories at June 30, 2008 and December 31, 2007 consisted of the following (in thousands):

	June 30, 2008	December 31, 2007
Finished goods	$ 14,623	$ 17,090
Work-in-process	6,243	3,335
Raw materials	15,408	13,681
Total	$ 36,274	$ 34,106

3. **Reporting Comprehensive Income.** Comprehensive income for the three and six-month periods ended June 30, 2008 and 2007 consisted of net income and foreign currency translation adjustments. As of June 30, 2008 and December 31, 2007, the cumulative effect of such adjustments increased/(decreased) stockholders equity by $100,500 and ($56,213) respectively. Comprehensive income for the three and six-month periods ended June 30, 2008 and 2007 has been computed as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Net income	$ 5,818	$ 3,596	$ 10,135	$ 6,565
Foreign currency translation	(33)	22	156	34
Comprehensive income	$ 5,785	$ 3,618	$ 10,291	$ 6,599

4. Stock-based Compensation. Stock-based compensation expense for the three and six-month periods ended June 30, 2008 and 2007 has been computed as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Cost of goods sold	$ 35	$ 59	$ (3)	$ 73
Research and development	10	24	10	29
Selling, general and administrative	194	166	330	294
Stock-based compensation	$ 239	$ 249	$ 337	$ 396

This stock-based compensation expense created a tax benefit of $47,000 and $310,000 for the three and six-month periods ended June 30, 2008, respectively, when compared to $46,000 and $178,000 for the three and six-month periods ended June 30, 2007, respectively. As of June 30, 2008, the total remaining unrecognized compensation cost related to non-vested stock options, net of forfeitures, was approximately $3.2 million and is expected to be

Table of Contents

recognized over a weighted average period of 4.38 years. During the six months ended June 30, 2008 and 2007, we granted 499,000 and 402,500 stock awards, respectively. We use the Black-Scholes method to value the stock compensation expense for options. In applying the Black-Scholes methodology to the option grants, we used the following assumptions:

	Six Months Ended June 30,	
	2008	2007
Risk-free interest rate	3.24-3.55%	5.00%
Expected option life	6-4.2	6
Expected price volatility	41.66-38.00%	47.80%

We estimate the average risk-free interest rate determined using the U.S. Treasury rate in effect as of the date of grant, based on the expected term of the stock option. We estimate the expected term of the stock options using the historical exercise behavior of employees. We estimate the expected price volatility using a weighted average of daily historical volatility of our stock price over the corresponding expected option life and implied volatility based on recent trends of the daily historical volatility.

5. Shares Used in Computing Net Income Per Share. The following table sets forth the computation of the number of shares used in calculating basic and diluted net income per share (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Weighted-average shares outstanding used for calculation of net income per share-basic	27,603	27,727	27,547	27,690
Common stock equivalents	722	753	764	859
Total shares used for calculation of net income per share-diluted	28,325	28,480	28,311	28,549
Weighted-average shares under stock options excluded from the calculation of common stock equivalents as the impact was anit-dilutive	1,083	1,364	1,045	1,358

6. Acquisitions. On January 29, 2008, we entered into an asset purchase and supply agreement with Micrus, a Delaware corporation, to purchase three catheter platforms for $3.0 million dollars. We paid $1.5 million in January 2008 and have accrued an additional $1.5 million in other payables, which is payable within one year from the closing date. We have paid $9,300 in acquisitions costs and have accrued an additional $3,000. The purchase price was preliminarily allocated to inventory for $161,745, other intangibles (customer relationships) for $320,000, developed technology for $370,000, a covenant not to compete for $30,000 and goodwill for $2,130,555. Customer relationships will be amortized on an accelerated basis over 14 years, developed technology over 15 years and a covenant not to compete over 5 years. We believe our acquisition of these Micrus products will help broaden our catheter offering to the cardiology and radiology markets.

On February 14, 2007, we terminated our exclusive sales distributor agreement with Medrad Sweden, and purchased the customer list and other information we believe will be necessary for us to conduct direct sales in Sweden. The purchase price of $124,036 was allocated to other intangibles (customer relationships). Customer relationships will be amortized on an accelerated basis over 5 years.

On February 2, 2007, we entered into a distribution agreement with Milamy, wherein we purchased the exclusive worldwide right to distribute the KanguruWeb® Abdominal Retraction System in vascular lab markets. Milamy terminated their current domestic and international distribution agreements and restricted their direct sales to non-vascular lab markets only. We paid $350,000 for the exclusive worldwide distribution rights in vascular lab markets, which amount was allocated to other intangibles (customer relationships) and will be amortized over 3 years. The KanguruWeb® Abdominal Retraction System provides retraction of the abdominal pannus for unrestricted access to the femoral site.

Table of Contents

On February 26, 2007, we entered into an asset purchase agreement with Datascope Corporation, a New Jersey corporation, to purchase certain assets for the manufacture and sale of the ProGuide catheter for $3,284,681, including future minimum royalty payments of $279,181. In connection with this agreement, we acquired assets, inventory, a customer list, patents and a trademark. The purchase price was preliminarily allocated to fixed assets for $50,844, inventory for $806,507, a customer list for $230,000, patents for $480,000, a trademark for $130,000, a covenant not to compete for $60,000 and goodwill for $1,527,330. In addition, we agreed to a running royalty payment of 5% of net sales through 2014, with a minimum annual payment of $50,000. Based on management s evaluation of the purchase agreement, we recorded the additional minimum earn-out payment as an assumed liability and an addition to the cost of the acquisition. The minimum running royalty payment of $350,000 to be paid through 2014 was discounted using our incremental borrowing rate of 6% to arrive at an assumed liability of $279,181. The ProGuide catheter is a chronic dialysis catheter used in attaining long-term vascular access for hemodialysis and apheresis.

The final purchase price allocations for our 2007 acquisitions can be reviewed in our Annual Report on Form 10-K for the year ended December 31, 2007 filed with the SEC.

7. Recent Accounting Pronouncements. In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157 Fair Value Measurements. This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 expands the disclosures about the use of fair value to measure assets and liabilities in interim and annual periods subsequent to initial recognition. The disclosures focus on the inputs used to measure fair value, the recurring fair value measurements using significant unobservable inputs and the effect of the measurement on earnings (or changes in net assets) for the period. The guidance in SFAS 157 also applies for derivatives and other financial instruments measured at fair value under Statement 133 Accounting for Derivative Instruments and Hedging Activities at initial recognition and in all subsequent periods. SFAS 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We adopted all requirements of SFAS 157 on January 1, 2008, except those that related to non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis, which will be adopted on January 1, 2009, as allowed under FASB Staff Position (FSP) 157-2. See Note 9 of these notes to consolidated financial statements for further information on the anticipated impact of this standard to our financial assets and liabilities. We are currently reviewing the requirements of FSP 157-2, and at this point in time, have not determined what impact, if any, FSP 157-2 will have on our results of operations and financial condition.

In February 2007, the FASB issued SFAS 159 The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). This statement permits entities to choose to measure many financial instruments and certain other items at fair value that were not previously required to be measured at fair value. The objective of SFAS 159 is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS 159 requires a business entity to report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. An entity may decide whether to elect the fair value option for each eligible item on its election date, subject to certain requirements described in the statement. SFAS 159 is effective for fiscal years beginning after November 15, 2007. We adopted SFAS 159 effective January 1, 2008, and elected not to establish a fair value for our financial instruments and certain other items under this statement. Therefore, our adoption of this statement did not impact our financial statements during the three and six month periods ended June 30, 2008.

In December 2007, the FASB issued SFAS No. 141 (revised 2007) Business Combinations (SFAS 141R). SFAS 141R establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree and the goodwill acquired. SFAS 141R establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS 141R is effective for the financial statements issued for fiscal years beginning after December 15, 2008. We are currently evaluating the potential impact, if any, that this statement may have on our consolidated financial position and results of operations.

In December 2007, the SEC issued Staff Accounting Bulletin No. 110 (SAB 110), Share-Based Payment. SAB 110 amends SAB 107, and allows for the continued use, under certain circumstances, of the simplified method in developing an estimate of the expected term on stock options accounted for under SFAS 123R. SAB 110 is

Table of Contents

effective for stock options granted after December 31, 2007. We believe we have sufficient employee exercise behavior to estimate an expected term for our stock option grants and have elected not to use the simplified method under the provisions of SAB 110.

In December 2007, the FASB issued SFAS No. 161 Disclosures about Derivative Instruments and Hedging Activities (SFAS 161). SFAS 161 requires additional disclosures related to how and why an entity uses derivative instruments and hedges, as well as how derivative instruments and hedges are accounted for in an entity s financial statements. SFAS 161 is effective for financial statements issued for fiscal years beginning after November