DOLE FOOD CO INC
Form 10-Q
May 10, 2010

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 27, 2010

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 1-4455

Dole Food Company, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**99-0035300**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

One Dole Drive, Westlake Village, California 91362
(Address of principal executive offices and zip code)

Registrant s telephone number, including area code:
(818) 879-6600

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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

Large accelerated filer o Accelerated filer o Non-accelerated filer þ Smaller reporting company o
(Do not check if a smaller reporting company)

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

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

Class	**Shares Outstanding at May 6, 2010**
Common Stock, $0.001 Par Value	88,227,289

DOLE FOOD COMPANY, INC.

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PART I.
FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

DOLE FOOD COMPANY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Quarter Ended March 27, 2010	Quarter Ended March 28, 2009
	(In thousands, except per share data)	
Revenues, net	$ 1,605,874	$ 1,596,590
Cost of products sold	(1,433,667)	(1,392,719)
Gross margin	172,207	203,871
Selling, marketing and general and administrative expenses	(115,198)	(97,406)
Gain on asset sales (Note 12)	1,971	16,634
Operating income	58,980	123,099
Other income (expense), net	4,607	21,952
Interest income	1,602	1,636
Interest expense	(41,050)	(37,546)
Income from continuing operations before income taxes and equity earnings	24,139	109,141
Income taxes	(3,175)	(8,048)
Earnings from equity method investments	1,451	1,194
Income from continuing operations, net of income taxes	22,415	102,287
Income from discontinued operations, net of income taxes	347	122
Gain on disposal of discontinued operations, net of income taxes		1,308
Net income	22,762	103,717
Less: Net income attributable to noncontrolling interests	(609)	(897)
Net income attributable to Dole Food Company, Inc.	$ 22,153	$ 102,820
Earnings per share Basic and Diluted (Note 15):		
Income from continuing operations Basic and Diluted	$ 0.26	$ 1.98
Net income attributable to Dole Food Company, Inc. Basic and Diluted	$ 0.25	$ 1.99

See Accompanying Notes to Condensed Consolidated Financial Statements

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DOLE FOOD COMPANY, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	March 27, 2010	January 2, 2010
	(In thousands, except per share data)	
ASSETS		
Cash and cash equivalents	$ 197,555	$ 119,670
Receivables, net of allowances of $50,997 and $51,380, respectively	807,762	726,157
Inventories	717,930	718,191
Prepaid expenses	68,173	68,665
Deferred income tax assets	9,500	8,496
Assets held-for-sale	96,949	96,020
Total current assets	1,897,869	1,737,199
Restricted deposits (Note 13)	21,250	23,290
Investments	81,865	85,004
Property, plant and equipment, net of accumulated depreciation of $1,086,982 and $1,069,299, respectively	946,086	962,247
Goodwill	407,247	407,247
Intangible assets, net	704,960	705,853
Other assets, net	183,107	186,183
Total assets	$ 4,242,384	$ 4,107,023
LIABILITIES AND SHAREHOLDERS EQUITY		
Accounts payable	$ 509,396	$ 474,399
Accrued liabilities	461,630	440,840
Current portion of long-term debt	77,306	8,017
Notes payable	37,244	37,308
Total current liabilities	1,085,576	960,564
Long-term debt	1,566,254	1,552,680
Deferred income tax liabilities	201,096	204,567
Other long-term liabilities	502,702	523,233
Contingencies (Note 11)		
Shareholders equity		
Preferred stock $0.001 par value; 10,000 shares authorized, none issued or outstanding		
Common stock $0.001 par value; 300,000 shares authorized, 88,233 shares issued and outstanding as of March 27, 2010 and January 2, 2010	88	88
Additional paid-in capital	770,352	768,973
Retained earnings	127,360	105,207
Accumulated other comprehensive loss	(38,210)	(35,293)

Equity attributable to Dole Food Company, Inc.	859,590	838,975
Equity attributable to noncontrolling interests	27,166	27,004
Total shareholders equity	886,756	865,979
Total liabilities and shareholders equity	$ 4,242,384	$ 4,107,023

See Accompanying Notes to Condensed Consolidated Financial Statements

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DOLE FOOD COMPANY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Quarter Ended	
	March 27, 2010	March 28, 2009
	(In thousands)	
Operating Activities		
Net income	$ 22,762	$ 103,717
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	26,267	26,929
Share-based compensation expense	1,379	
Net unrealized gains on financial instruments	(7,122)	(37,035)
Asset write-offs and net gain on sale of assets	(2,502)	(20,003)
Earnings from equity method investments	(1,451)	(1,194)
Amortization of debt discounts and debt issuance costs	2,172	926
Write-off of debt issuance costs	4,650	5,222
Provision for deferred income taxes	(3,064)	2,361
Pension and other postretirement benefit plan expense	3,475	3,111
Other		40
Changes in operating assets and liabilities:		
Receivables	(73,598)	(33,626)
Inventories	185	8,581
Prepaid expenses and other assets	5,117	(17,084)
Income taxes	1,046	821
Accounts payable	44,450	287
Accrued liabilities	(185)	(5,810)
Other long-term liabilities	(4,831)	1,720
Cash flow provided by operating activities	18,750	38,963
Investing Activities		
Proceeds from sales of assets and businesses, net of cash disposed	9,741	56,437
Capital expenditures	(10,130)	(11,342)
Restricted deposits	2,040	
Other	(45)	(8)
Cash flow provided by investing activities	1,606	45,087
Financing Activities		
Short-term debt borrowings, net of repayments	(12,136)	84
Long-term debt borrowings	899,419	595,717
Long-term debt repayments	(811,756)	(685,216)
Payment of debt issuance costs	(15,858)	(17,760)
Payment of initial public offering costs	(733)	
Dividends paid to noncontrolling interests	(430)	(180)

Cash flow provided by (used in) financing activities	58,506	(107,355)
Effect of foreign currency exchange rate changes on cash	(977)	(1,579)
Increase (decrease) in cash and cash equivalents	77,885	(24,884)
Cash and cash equivalents at beginning of period	119,670	90,829
Cash and cash equivalents at end of period	$ 197,555	$ 65,945

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DOLE FOOD COMPANY, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS Continued
(Unaudited)

Supplemental cash flow information

At March 27, 2010 and January 2, 2010, accounts payable included approximately $6.7 million and $6.1 million, respectively, for capital additions. Of the $6.1 million of capital additions included in accounts payable at January 2, 2010, approximately $3.5 million had been paid during the quarter ended March 27, 2010. Approximately $4.3 million had been paid during the quarter ended March 28, 2009 related to $6.7 million of capital additions included in accounts payable at January 3, 2009.

For the quarter ended March 28, 2009, changes in operating assets and liabilities for prepaid expenses and other assets included a $10 million provisional payment made to the European Commission (EC) during January 2009 related to the EC s Antitrust Decision. Refer to Note 11 Contingencies for further information.

In addition to proceeds from asset sales of $56.4 million for the quarter ended March 28, 2009, $25.9 million of long-term debt was assumed by the buyer of the fresh-cut flowers subsidiaries, therefore providing a total benefit to Dole of $82.3 million from asset sales. During the fourth quarter of 2008, the fresh-cut flowers subsidiaries borrowed $25.9 million and Dole s cash balance at January 3, 2009 reflected the cash proceeds from this transaction. The debt ceased to be an obligation of Dole upon the closing of the first phase of the Flowers transaction during the first quarter of 2009.

See Accompanying Notes to Condensed Consolidated Financial Statements

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DOLE FOOD COMPANY, INC.

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY
(Unaudited)

	Common Shares Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss): Pension & Other Postretirement Benefits	Accumulated Other Comprehensive Income (Loss): Cumulative Translation Adjustment	Accumulated Other Comprehensive Income (Loss): Unrealized Gains (Losses) on Hedges	Equity Attributable to Noncontrolling Interests	Total Shareholders Equity	Co
						(In thousands)				
anuary 3, 2009	51,710	$ 51	$ 409,630	$ 36,122	$ (40,960)	$ 27,187	$ (29,130)	$ 30,259	$ 433,159	
				102,820				897	103,717	$
aid								(180)	(180)	
foreign nslation and ns						(12,750)	421	(16)	(12,345)	
tion of realized ncome							546		546	
mployee s, net of s					(58)				(58)	
March 28, 2009	51,710	$ 51	$ 409,630	$ 138,942	$ (41,018)	$ 14,437	$ (28,163)	$ 30,960	$ 524,839	$
anuary 2, 2010	88,233	$ 88	$ 768,973	$ 105,207	$ (52,393)	$ 38,226	$ (21,126)	$ 27,004	$ 865,979	
				22,153				609	22,762	$
compensation			1,379						1,379	
aid								(430)	(430)	
foreign nslation and ns, net of s						(12,876)	8,802	(17)	(4,091)	
tion of realized ncome							1,157		1,157	
March 27, 2010	88,233	$ 88	$ 770,352	$ 127,360	$ (52,393)	$ 25,350	$ (11,167)	$ 27,166	$ 886,756	$

See Accompanying Notes to Condensed Consolidated Financial Statements

DOLE FOOD COMPANY, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 BASIS OF PRESENTATION

In the opinion of management, the accompanying unaudited condensed consolidated financial statements of Dole Food Company, Inc. and its consolidated subsidiaries (Dole or the Company) include all adjustments necessary, which are of a normal recurring nature, to present fairly Dole s financial position, results of operations and cash flows. Dole operates under a 52/53-week year. The quarters ended March 27, 2010 and March 28, 2009 are twelve weeks in duration. For a summary of significant accounting policies and additional information relating to Dole s financial statements, refer to the Notes to Consolidated Financial Statements in Item 8 of Dole s Annual Report on Form 10-K (Form 10-K) for the year ended January 2, 2010.

Interim results are subject to seasonal variations and are not necessarily indicative of the results of operations for a full year. Dole s operations are sensitive to a number of factors including weather-related phenomena and their effects on industry volumes, prices, product quality and costs. Operations are also sensitive to fluctuations in foreign currency exchange rates in both sourcing and selling locations as well as economic crises and security risks.

In March 2003, Dole completed a going-private merger transaction. As a result of the transaction, Dole became wholly-owned by David H. Murdock, Dole s Chairman. On October 28, 2009, Dole completed a $446 million initial public offering (IPO) of 35,715,000 common shares at $12.50 per share. On October 23, 2009, Dole s common stock began trading on the New York Stock Exchange under the ticker symbol DOLE. At the completion of the IPO, Dole s chairman, David H. Murdock, and his affiliates beneficially own approximately 51,710,000 common shares, or 58.6% of Dole s outstanding common shares.

NOTE 2 RECENTLY ISSUED AND ADOPTED ACCOUNTING PRONOUNCEMENTS

During May 2009, the Financial Accounting Standards Board (FASB) issued a statement which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. In February 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-09, *Subsequent Events (Topic 855) Amendments to Certain Recognition and Disclosure Requirements* (ASU 2010-09). ASU 2010-09 amends the previous guidance on subsequent events and no longer requires Securities and Exchange Commission (SEC) filers to disclose the date through which subsequent events have been evaluated. The subsequent event provisions are effective for interim and annual reporting periods ending after June 15, 2009 and were effective for Dole beginning in the first quarter of fiscal 2010. The adoption of this standard had no impact on Dole s financial position, results of operations, or cash flows.

During June 2009, the FASB issued ASU No. 2009-17, *Consolidations (Topic 810) Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities* (ASU 2009-17). ASU 2009-17 amended the consolidation guidance applicable to variable interest entities (VIE) and changed the approach for determining the primary beneficiary of a VIE. Among other things, the new guidance requires a qualitative rather than a quantitative analysis to determine the primary beneficiary of a VIE; requires continuous assessments of whether an enterprise is the primary beneficiary of a VIE; enhances disclosures about an enterprise s involvement with a VIE; and amends certain guidance for determining whether an entity is a VIE. This accounting guidance is effective for annual periods beginning after November 15, 2009 and was effective for Dole beginning in the first quarter of fiscal 2010. The adoption of this standard had no impact on Dole s results of operations or financial position.

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DOLE FOOD COMPANY, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

NOTE 3 OTHER INCOME (EXPENSE), NET

Included in other income (expense), net in Dole s condensed consolidated statements of operations for the quarters ended March 27, 2010 and March 28, 2009 are the following items:

	Quarter Ended March 27, 2010	Quarter Ended March 28, 2009
	(In thousands)	
Unrealized gain (loss) on the cross currency swap	$ (3,588)	$ 17,716
Realized gain on the cross currency swap	2,256	2,320
Unrealized gain on foreign denominated borrowings	5,409	5,538
Realized gain on foreign denominated borrowings		1,172
Foreign currency exchange gain on vessel obligations	5,174	422
Write-off of debt issuance costs	(4,650)	(5,222)
Other	6	6
Other income (expense), net	$ 4,607	$ 21,952

Refer to Note 13 Derivative Financial Instruments for further discussion regarding Dole s cross currency swap.

NOTE 4 DISCONTINUED OPERATIONS

During the second quarter of 2008, Dole approved and committed to a formal plan to divest its fresh-cut flowers operations (Flowers transactions). The first phase of the Flowers transaction was completed during the first quarter of 2009. The operating results of fresh-cut flowers for the quarters ended March 27, 2010 and March 28, 2009 are reported in the following table:

	Quarter Ended March 27, 2010	Quarter Ended March 28, 2009
	(In thousands)	
Revenues	$ 415	$ 2,780
Income before income taxes	354	159
Income taxes	(7)	(37)
Income from discontinued operations, net of income taxes	$ 347	$ 122

Gain on disposal of discontinued operations, net of income taxes	$	$ 1,308

For all periods presented, noncontrolling interests shares of income from discontinued operations were not material.

NOTE 5 INCOME TAXES

Dole recorded $3.2 million of income tax expense on $24.1 million of pretax income from continuing operations for the quarter ended March 27, 2010. Income tax expense included an interest benefit of $0.7 million related to Dole s unrecognized tax benefits. Income tax expense of $8 million was recorded for the quarter ended March 28, 2009 which included interest expense of $0.6 million (net of associated income tax benefits of approximately $0.2 million) related to Dole s unrecognized tax benefits. Dole s effective tax rate varies significantly from period to period due to the level, mix and seasonality of earnings generated in its various U.S. and

DOLE FOOD COMPANY, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

foreign jurisdictions. Income tax expense for the quarter ended March 27, 2010 included $2.4 million recorded to establish a valuation allowance against deferred income tax assets in Ecuador which, as the result of a recently enacted tax law, have been determined to not be recoverable. This was offset by a reduction in Dole s liability for unrecognized tax benefits related to certain foreign jurisdictions.

Under ASC Topic 270, Interim Reporting (ASC 270) and ASC Topic 740, Income Taxes (ASC 740), Dole is requi to adjust its effective tax rate for each quarter to be consistent with the estimated annual effective tax rate. Jurisdictions with a projected loss where no tax benefit can be recognized are excluded from the calculation of the estimated annual effective tax rate. Applying the provisions of ASC 270 and ASC 740 could result in a higher or lower effective tax rate during a particular quarter, based upon the mix and timing of actual earnings versus annual projections.

For the periods presented, Dole s income tax provision differs from the U.S. federal statutory rate applied to Dole s pretax income primarily due to operations in foreign jurisdictions that are taxed at a rate lower than the U.S. federal statutory rate.

Dole recognizes accrued interest and penalties related to its unrecognized tax benefits as a component of income taxes in the accompanying condensed consolidated statements of operations. Accrued interest and penalties before tax benefits were $27.6 million and $28.3 million at March 27, 2010 and January 2, 2010, respectively, and are included as a component of other long-term liabilities in the accompanying condensed consolidated balance sheets.

Dole Food Company, Inc. or one or more of its subsidiaries file income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. With few exceptions, Dole is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years prior to 2001.

Income Tax Audits: Dole believes its tax positions comply with the applicable tax laws and that it has adequately provided for all tax related matters. Matters raised upon audit may involve substantial amounts and could result in material cash payments if resolved unfavorably; however, management does not believe that any material payments will be made related to these matters within the next twelve months. Management considers it unlikely that the resolution of these matters will have a material adverse effect on Dole s results of operations.

Internal Revenue Service Audit: On August 27, 2009, the IRS completed its examination of Dole s U.S. federal income tax returns for the years 2002-2005 and issued a Revenue Agent s report (RAR) that includes various proposed adjustments, including with respect to the going-private merger transactions. The IRS is proposing that certain funding used in the going-private merger is currently taxable and that certain related investment banking fees are not deductible. The net tax deficiency associated with the RAR is $122 million, plus interest. On October 27, 2009, Dole filed a protest letter vigorously challenging the proposed adjustments contained in the RAR and is pursuing resolution of these issues with the Appeals Division of the IRS. Dole believes, based in part upon the advice of its tax advisors, that its tax treatment of such transactions was appropriate. Although the timing and ultimate resolution of any issues arising from the IRS examination are highly uncertain, at this time Dole does not anticipate that the total unrecognized tax benefits will significantly change within the next twelve months nor does Dole believe that any material tax payments will be made related to these matters within the next twelve months.

On November 6, 2009, The Worker, Homeownership, and Business Assistance Act of 2009 was signed into law allowing companies to carry back net operating losses for up to five years for losses incurred in taxable years beginning or ending in either 2008 or 2009. Dole estimates that this new law effectively reduces the amount of the IRS claim from $122 million to $91 million. As noted, however, Dole is pursuing its objection to the proposed adjustments in the RAR.

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DOLE FOOD COMPANY, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

There was no impact to Dole from the changes made to the tax treatment of the Medicare Part D program as a result of the March 2010 enactment of the Patient Protection and Affordable Care Act.

NOTE 6 INVENTORIES

The major classes of inventories were as follows:

	March 27, 2010	January 2, 2010
	(In thousands)	
Finished products	$ 366,482	$ 355,387
Raw materials and work in progress	105,482	100,843
Crop-growing costs	189,263	207,312
Operating supplies and other	56,703	54,649
	$ 717,930	$ 718,191

NOTE 7 GOODWILL AND INTANGIBLE ASSETS

Goodwill has been allocated to Dole s reporting segments as follows:

	Fresh Fruit	Fresh Vegetables	Packaged Foods	Total
	(In thousands)			
Balance as of January 2, 2010 and March 27, 2010	$ 275,430	$ 71,206	$ 60,611	$ 407,247

Details of Dole s intangible assets were as follows:

	March 27, 2010	January 2, 2010
	(In thousands)	
Amortized intangible assets:		
Customer relationships	$ 39,631	$ 39,631
Other amortized intangible assets	2,024	2,126

	41,655	41,757
Accumulated amortization customer relationships	(24,864)	(23,989)
Other accumulated amortization	(1,446)	(1,530)
Accumulated amortization intangible assets	(26,310)	(25,519)
Amortized intangible assets, net	15,345	16,238
Indefinite-lived intangible assets:		
Trademark and trade names	689,615	689,615
Total identifiable intangible assets, net	$ 704,960	$ 705,853

Amortization expense of intangible assets totaled $0.9 million in each of the quarters ended March 27, 2010 and March 28, 2009, respectively.

DOLE FOOD COMPANY, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

As of March 27, 2010 the estimated remaining amortization expense associated with Dole s intangible assets for the remainder of 2010 and in each of the next four fiscal years is as follows (in thousands):

Fiscal Year	Amount
2010	$ 2,915
2011	$ 3,790
2012	$ 3,790
2013	$ 1,611
2014	$ 955

NOTE 8 NOTES PAYABLE AND LONG-TERM DEBT

Notes payable and long-term debt consisted of the following:

	March 27, 2010	January 2, 2010
	(In thousands)	
Unsecured debt:		
8.875% notes due 2011	$ 70,000	$ 70,000
8.75% debentures due 2013	155,000	155,000
Secured debt:		
13.875% notes due 2014	227,437	227,437
8% notes due 2016	315,000	315,000
Revolving credit facility		
Term loan facilities	836,100	739,216
Contracts and notes, at a weighted-average interest rate of 6% in 2010 (6% in 2009) through 2014	8,810	9,349
Capital lease obligations	59,174	65,065
Notes payable, at a weighted-average interest rate of 6.5% in 2010 (7.3% in 2009)	37,244	37,308
Unamortized debt discount	(27,961)	(20,370)
	1,680,804	1,598,005
Current maturities	(114,550)	(45,325)
	$ 1,566,254	$ 1,552,680

Notes Payable

Dole borrows funds primarily on a short-term basis to finance current operations. The terms of these borrowings range from one month to three months. Dole s notes payables at March 27, 2010 consist primarily of foreign borrowings in Asia and Latin America.

2010 Debt Refinancing

On March 2, 2010, Dole amended its senior secured credit facilities. The amendments, among other things: (i) reduced the applicable Eurodollar interest rate for the term loan facilities to LIBOR plus 3.25%, with a LIBOR floor of 1.75%, or the base rate plus 2.25%; (ii) for the revolving credit facility, kept interest rates on borrowed funds unchanged at a range of LIBOR plus 3.00% to 3.50% or the base rate plus 2.00% to 2.50%, with the rate at any time determined by the average historical borrowing availability; (iii) changed the financial covenant metrics to a maximum total leverage ratio and a minimum interest coverage ratio; (iv) added significant operating and financial

DOLE FOOD COMPANY, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

flexibility for Dole; and (v) provided for other technical and clarifying changes. The amended senior secured credit facilities provided $850 million of term loan facilities due 2017 and a $350 million revolving credit facility due 2014.

In March 2010, subsequent to the amendments, Dole repaid $13.9 million of the term loan facilities due 2017.

The 8.875% Senior Notes due 2011 (2011 Notes) are scheduled to mature during March 2011. As a result, during the quarter ended March 27, 2010, the remaining $70 million of notes outstanding were reclassified to current liabilities. On March 2, 2010, Dole called for redemption all of the remaining 2011 Notes. On April 1, 2010, Dole redeemed the remaining $70 million of the 2011 Notes outstanding with the proceeds from the senior secured credit facilities amendments.

Term Loans and Revolving Credit Facility

As of March 27, 2010, the term loan facilities consisted of $240 million of Term Loan B and $596.1 million of Term Loan C. The term loan facilities bear interest, at Dole s option, at a rate per annum equal to either (i) LIBOR plus a base rate of 3.25%, with a LIBOR floor of 1.75%; or (ii) the base rate plus 2.25%. Interest on the term loan facilities is payable quarterly in arrears. The weighted average variable interest rate at March 27, 2010 for Term Loan B and Term Loan C was 5.02%. The term loan facilities require quarterly principal payments, plus a balloon payment due in 2017. Dole has an interest rate swap to hedge future changes in interest rates and a cross currency swap to lower the U.S. dollar fixed interest rate to a Japanese yen fixed interest rate on Term Loan C through June 2011. Refer to Note 13 Derivative Financial Instruments for additional information related to these instruments.

As of March 27, 2010, the asset based lending senior secured revolving credit facility (ABL revolver) borrowing base was $271.3 million. There were no borrowings under the ABL revolver at March 27, 2010. Amounts outstanding under the ABL revolver bears interest, at Dole s option, at a rate per annum equal to either (i) LIBOR plus 3.00% to 3.50%, or (ii) a base rate plus 2.00% to 2.50%, in each case, based upon Dole s historical borrowing availability under this facility. The ABL revolver matures in March 2014. After taking into account approximately $92 million of outstanding letters of credit issued under the ABL revolver, Dole had approximately $179.3 million available for borrowings as of March 27, 2010. In addition, Dole had approximately $89.1 million of letters of credit and bank guarantees outstanding under its $100 million pre-funded letter of credit facility as of March 27, 2010.

Capital Lease Obligations

At March 27, 2010 and January 2, 2010, included in capital lease obligations were $56.4 million and $62.2 million, respectively, of vessel financing related to two vessel leases denominated in British pound sterling. The decrease in the capital lease obligation was primarily due to the weakening of the British pound sterling against the U.S. dollar during 2010, which resulted in Dole recognizing $5.2 million of unrealized gains. These unrealized gains were recorded as other income (expense), net in the condensed consolidated statement of operations for the quarter ended March 27, 2010.

Covenants

Provisions under the senior secured credit facilities and the indentures governing Dole s senior notes and debentures require Dole to comply with certain covenants. These covenants include limitations on, among other things, indebtedness, investments, loans to subsidiaries, employees and third parties, the issuance of guarantees and the payment of dividends. The ABL revolver also contains a springing covenant, which would not be effective unless the availability under the ABL revolver were to fall below the greater of $37.5 million and 12.5% of the Total Commitment (as defined) for any three consecutive business days. To date, the springing covenant had never been effective and Dole does not currently anticipate that the springing covenant will become effective.

DOLE FOOD COMPANY, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

In addition, as a result of the March 2, 2010 amendments to Dole s senior secured credit facilities, Dole is subject to a maximum total leverage and a minimum interest coverage ratio. At March 27, 2010, Dole s total leverage ratio was 3.90x and interest coverage ratio was 2.00x as compared with the required maximum total leverage ratio of 5.00x and the minimum interest coverage ratio of 1.50x.

A breach of a covenant or other provision in any debt instrument governing Dole s current or future indebtedness could result in a default under that instrument and, due to customary cross-default and cross-acceleration provisions, could result in a default under Dole s other debt instruments. Upon the occurrence of an event of default under the senior secured credit facilities or other debt instrument, the lenders or holders of such other debt instruments could elect to declare all amounts outstanding to be immediately due and payable and terminate all commitments to extend further credit. If Dole were unable to repay those amounts, the lenders could proceed against the collateral granted to them, if any, to secure the indebtedness. If the lenders under Dole s current indebtedness were to accelerate the payment of the indebtedness, Dole cannot give assurance that its assets would be sufficiently liquid to repay in full its outstanding indebtedness on an accelerated basis.

Debt Discounts and Debt Issuance Costs

In connection with the March 2, 2010 amendments of the senior secured credit facilities, Dole incurred debt issuance costs of $17 million. Debt issuance costs are capitalized and amortized into interest expense over the term of the underlying debt. During the quarters ended March 27, 2010 and March 28, 2009, Dole amortized deferred debt issuance costs of $1.2 million and $0.9 million, respectively.

Dole wrote off $4.6 million of deferred debt issuance costs during the quarter ended March 27, 2010 resulting from the amendments of the senior secured credit facilities as well as repayment of the term loan facilities subsequent to the amendments. In accordance with ASC Topic 470, Debt, the term loans and a portion of the ABL revolver, as a result of the amendments, were accounted for as extinguishment of debt. The write-off related to these amendments was recorded in other income (expense), net in the condensed consolidated statement of operations for the quarter ended March 27, 2010.

Debt discounts on term loan facilities in connection with the 2010 amendments of the senior secured credit facilities totaled $8.5 million. Debt discounts are amortized into interest expense over the term of the underlying debt. During the quarter ended March 27, 2010, Dole amortized debt discounts of $0.9 million.

Fair Value of Debt

Dole estimates the fair value of its secured and unsecured notes and debentures based on current quoted market prices. The term loans are traded between institutional investors on the secondary loan market, and the fair values of the term loans are based on the last available trading price. The carrying values and estimated fair values of Dole s debt are summarized below:

	March 27, 2010		January 2, 2010	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value

	(In thousands)			
Secured and unsecured notes and debentures	$ 747,887	$ 828,175	$ 747,067	$ 824,412
Term loans	827,689	844,461	739,216	743,836

Carrying values are net of debt discounts.

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DOLE FOOD COMPANY, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

NOTE 9 EMPLOYEE BENEFIT PLANS

The components of net periodic benefit cost for Dole s U.S. and international pension plans and other postretirement benefit (OPRB) plans were as follows:

	U.S. Pension Plans Quarter Ended		International Pension Plans Quarter Ended		OPRB Plans Quarter Ended	
	March 27, 2010	March 28, 2009	March 27, 2010	March 28, 2009	March 27, 2010	March 28, 2009
			(In thousands)			
Components of net periodic benefit cost:						
						27,274
Diluted						
						28,031
						28,287
						28,260
						28,116

See notes to consolidated financial statements.

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MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006

(In Thousands -Unaudited)

	Nine Months Ended September 30, 2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 10,860	$ 9,248
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,890	6,078
Losses on sales and/or abandonment of equipment	252	161
Write-off of certain patents and trademarks	95	40
Amortization of deferred credits	(105)	(135)
Deferred income taxes	1,332	(373)
Stock-based compensation	759	1,196
Tax benefit attributable to appreciation of common stock options exercised	(216)	(508)
Changes in operating assets and liabilities net of effects from acquisitions:		
Trade receivables	1,139	2,267
Employee receivables	74	(48)
Other receivables	(690)	(178)
Inventories	2,422	(5,149)
Prepaid expenses and other assets	(425)	(534)
Income tax refund receivables	(16)	959
Deposits	6	2
Trade payables	(2,317)	85
Accrued expenses	1,305	230
Advances from employees	(38)	(111)
Income taxes payable	720	1,555
Liabilities related to unrecognized tax positions	(141)	
Other liabilities		(38)
Total adjustments	11,046	5,499
Net cash provided by operating activities	21,906	14,747
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures for:		
Property and equipment	(11,256)	(11,754)
Patents and trademarks	(143)	(236)
Increase in cash surrender value of life insurance contracts	(188)	(296)

Proceeds from the sale of equipment	9	26
Cash paid in acquisitions	(4,218)	(2,802)
Net cash used in investing activities	(15,796)	(15,062)

See notes to consolidated financial statements.

MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006

(In Thousands - Unaudited)

	Nine Months Ended September 30, 2007		Nine Months Ended September 30, 2006	
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from:				
Issuance of common stock	$	1,127	$	1,805
Principal payments on long-term debt				1
Common stock repurchased and retired		(5,408)		
Increase in deferred compensation payable		24		230
Excess tax benefits from stock-based compensation		216		508
Net cash (used by) provided by financing activities		(4,041)		2,544
EFFECT OF EXCHANGE RATES ON CASH		292		131
NET INCREASE IN CASH AND CASH EQUIVALENTS		2,361		2,360
CASH AND CASH EQUIVALENTS:				
Beginning of period		9,838		4,645
End of period	$	12,199	$	7,005
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION Cash paid during the period for:				
Interest	$	3	$	7
Income taxes	$	3,520	$	3,019

SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

During the nine months ended September 30, 2007, we entered into a Distribution Agreement with GMA Company, Ltd (GMA), a Japanese corporation, for the exclusive distribution rights to sell a micro-catheter. In September, 2007, we paid $500,000 in to GMA and have accrued an additional $500,000 payable due upon receipt of certain information to assist in the filing of a Section 510(k) permitting application with the Food and Drug Administration (FDA). We also paid $4,000 in September, 2007 to an outside firm for an asset valuation. An additional $1.0 million is payable to GMA upon reaching certain milestones identified in the Distribution Agreement. Achievement of those milestones is not determinable at this time. The purchase price was allocated preliminarily to a distribution agreement for $1,004,000.

Fair value of assets acquired	$	1,004,000
Cash paid		(504,000)
Accrued purchase price		(500,000)

Liabilities assumed	None

During the nine months ended September 30, 2007, we entered into a Patent Assignment and Royalty Agreement with Lightek Corporation, (Lightek) a Wyoming corporation, to manufacture and sell a radio-opaque band. We made an initial payment of $228,000 to Lightek and an additional $400,000 would be payable if we reach certain milestones identified in the Patent Assignment and Royalty Agreement. Achievement of the milestones is not certain at this time. In addition, we agreed to a royalty payment of 3% of net sales during the life of a pending patent. We have estimated a discounted royalty payment of $75,000, over the life of the pending patent, using an incremental borrowing rate of 6%.

See notes to consolidated financial statements.

MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOW

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006

(In Thousands - Unaudited)

SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES (Continued):

Based on management s evaluation of the purchase agreement, we plan to record the royalty payments as an addition to the cost of the acquisition. We also plan to pay $10,000 to an outside firm to complete an asset valuation. The purchase price will be allocated based on preliminarily fair values to developed technology for $188,000, (Customer Relationships) for $470,000, and goodwill for $55,000.

Fair value of assets acquired	$	228,000
Cash paid		(228,000)
Liabilities assumed		None

During the nine months ended September 30, 2007, we acquired other intangibles (Customer Relationships) of Medrad Sweden, AB (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 nine months ended September 30, 2007, we entered into a distribution agreement with Milamy Partners LLC, (Milamy) a Maine corporation, wherein we purchased the exclusive, worldwide right to distribute their KanguruWeb® Abdominal Retraction System in vascular lab markets for $350,000. As 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 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 nine months ended September 30, 2007, we entered into an asset purchase agreement with Datascope Corporation, (Datascope) a New Jersey corporation, to purchase its ProGuide catheter in a purchase transaction for $3,290,731, 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 based on estimated fair values to fixed assets for $25,971, inventory for $806,508, 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 $1,558,252.

Fair value of assets acquired (including goodwill of $1,558,252)	$	3,290,731
Cash paid		(3,011,550)
Liabilities assumed	$	(279,181)

During the nine months ended September 30, 2006, we acquired certain assets and other intangibles (Customer Relationships) of Hypoguard USA, Inc. (Hypoguard) in a purchase transaction for $1,290,077. The purchase price was preliminarily allocated between fixed assets for $178,573, inventory for $149,821, a customer list for $300,000 and goodwill for $661,683.

See notes to consolidated financial statements.

MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOW

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006

(In Thousands - Unaudited)

SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES (Continued):

Fair value of assets acquired (including goodwill of $661,683)	$	1,290,077
Cash paid		(790,077)
Accrued purchase price		(500,000)
Liabilities assumed		None

During the nine months ended September 30, 2006, we acquired certain assets of Millimed A/S, a corporation organized under the laws of Denmark, and Millimed Holdings, Inc., a Delaware corporation, (together Millimed) in a purchase transaction for $1,510,878. The purchase price was preliminarily allocated between fixed assets for $135,590, inventory for $461,790 and goodwill for $913,498.

Fair value of assets acquired (including goodwill of $913,498)	$	1,510,878
Cash paid		(1,510,878)
Liabilities assumed		None

During the nine months ended September 30, 2006, we acquired certain know-how and formulas from a medical device company to produce a medical product in a purchase transaction for approximately $742,501. The purchase price was allocated to other intangibles (Product Technology) for $742,501. We have accrued for an additional purchase price payment of $241,464 in other payables.

Fair value of assets acquired	$	742,501
Cash paid		(501,037)
Accrued purchase price		(241,464)
Liabilities assumed		NONE

As of September 30, 2007 and 2006, $1.0 million and $1.6 million, respectively, of additions to plant, equipment, and other asset purchases were accrued as accounts payable.

See notes to consolidated financial statements.

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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, 2007 and 2006 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, 2007, and our results of operations and cash flows for the three and nine-month periods ended September 30, 2007 and 2006. The results of operations for the three and nine-month periods ended September 30, 2007 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, 2006 filed with the Securities and Exchange Commission (the SEC).

Reclassifications. Certain other amounts have been reclassified in the prior year s financial statements to conform with the current year s presentation.

2. **Inventories**. Inventories are stated at the lower of cost or market. Inventories at September 30, 2007 and December 31, 2006 consisted of the following (in thousands):

	September 30, 2007	December 31, 2006
Finished goods	$ 20,031	$ 20,524
Work-in-process	5,457	3,714
Raw materials	11,306	14,324
Total	$ 36,794	$ 38,562

3. **Reporting Comprehensive Income.** Comprehensive income for the three and nine-month periods ended September 30, 2007 and 2006 consisted of net income and foreign currency translation adjustments. As of September 30, 2007 and December 31, 2006, the cumulative effect of such adjustments reduced stockholders equity by $21,073 and $151,048, respectively. Comprehensive income for the three and nine-month periods ended September 30, 2007 and 2006 has been computed as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Net income	$ 4,295	$ 3,325	$ 10,860	$ 9,248
Foreign currency translation	96	(15)	130	131
Comprehensive income	$ 4,391	$ 3,310	$ 10,990	$ 9,379

4. Stock-based Compensation. Stock-based compensation expense for the three and nine-month periods ended September 30, 2007 and 2006 has been computed as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Cost of goods sold	$ 76	$ 88	$ 149	$ 313
Research and development	36	44	65	134
Selling, general and administrative	251	300	545	749
Total pre-tax stock expense	$ 363	$ 432	$ 759	$ 1,196

This stock-based compensation created a tax benefit of $38,000 and $216,000 for the three and nine-month periods ended September 30, 2007, respectively, when compared to $147,000 and $508,000 for the three and nine-month periods ended September 30, 2006, respectively. As of September 30, 2007, the total remaining unrecognized compensation cost related to non-vested stock options, net of forfeitures, was approximately $2.8 million and is expected to be recognized over a weighted average period of 3.51 years. During the nine months ended September 30, 2007 there were 419,500 options of Merit common stock granted. 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:

	Ended September 30,	
	2007	**2006**
Risk-free interest rate	4.61%-5.00%	4.98%
Expected option life	6 years	6.08 years
Expected price volatility	46.3%-47.8%	41.90%

The average risk-free interest rate is determined using the U.S. Treasury rate in effect as of the date of grant, based on the expected term of the stock option. We determined the expected term of the stock options using the historical exercise behavior of employees. The expected price volatility was determined using a weighted average of daily historical volatility of our stock price over the corresponding expected option 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) for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	**2006**	**2007**	**2006**
Weighted-average shares outstanding used for calculation of net income per share-basic	27,327	27,363	27,453	27,274
Common stock equivalents	704	924	807	842
Total shares used for calculation of net income per share-diluted	28,031	28,287	28,260	28,116
Weighted-average shares under stock options excluded from the calculation of common stock equivalents as the impact was anit-dilutive	2,195	1,399	1,477	1,366

6. Acquisitions. On August 7, 2007, we entered into a Distribution Agreement with GMA for the exclusive distribution rights to sell a micro-catheter. We made an initial payment of $500,000 in September 2007 to GMA and have accrued an additional $500,000 payable due upon receipt of certain information to assist in the filing of a Section 510(k) permitting application with the FDA. We paid $4,000 in September, 2007 to an outside firm for an asset valuation. An additional $1.0 million would be payable to GMA upon reaching certain milestones identified in the Distribution Agreement. Achievement of those milestones is not certain at this time. We anticipate that the distribution agreement will be amortized over an estimated life of ten years.

On July 17, 2007, we entered into a Patent Assignment and Royalty Agreement with Lightek to manufacture and sell a radio-opaque band. We made an initial payment of $228,000 to Lightek and an additional $400,000 would be payable if we reach certain milestones identified in the Patent Assignment and Royalty Agreement. Achievement of the milestones is not certain at this time. In addition, we agreed to a royalty payment of 3% of net sales during the life of a pending patent. We have estimated a discounted royalty payment of $75,000, over the life of the pending patent, using an incremental borrowing rate of 6%. Based on management s evaluation of the purchase agreement, we plan to record the royalty payments as an addition to the cost of the acquisition. We also plan to pay $10,000 to an outside firm to complete an asset valuation. The purchase price will be allocated based on preliminarily fair values to developed technology for $188,000, (Customer Relationships) for $470,000, and goodwill for $55,000. Customer relationships will be amortized on an accelerated basis over 5 years and developed technology over 10 years. The radio-opaque band can be placed on a catheter to be used as x-ray markers for positioning of the catheter by a physician.

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On February 14, 2007, we terminated our exclusive sales distributor agreement with Medrad and purchased the customer list and 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 the 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). Customer relationships will be amortized on an accelerated basis over 5 years. The KanguruWeb® Abdominal Retraction System provides retraction of the abdominal pannus for unrestricted access to the femoral site.

On February 26, 2007, we entered into an Asset Purchase Agreement with Datascope to purchase certain assets for the manufacture and sale of the ProGuide catheter for $3,290,731, 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 $25,971, inventory for $806,508, 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 $1,558,252, based on an independent valuation of the fair value of assets acquired. 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.

On March 31, 2006, we entered into an Asset Purchase Agreement with Millimed to purchase certain assets for the manufacture and sale of a hemostasis valve, for a purchase price including legal fees of $1,510,878. Merit made an initial payment on April 3, 2006 of $1.0 million to Millimed, with additional payment of $500,000 made in July, after the successful transfer of the production of the product to Merit s facility in Galway, Ireland. The purchase price was preliminarily allocated between fixed assets for $135,590, inventory for $461,790 and goodwill for $913,498. With the purchase of this product line, we believe we will be able to broaden our hemostasis product offerings as well as compete against other competitors which have similar devices.

On April 7, 2006, Merit entered into an Asset Purchase Agreement with Hypoguard to purchase certain assets for the manufacture and sale of auto-retractable safety scalpels, for a purchase price including legal fees and freights costs to transport fixed assets of $790,077. Merit made an initial payment of $750,000 to Hypoguard with a potential earn-out payment of $500,000 due upon reaching certain sales milestones. During the third quarter of 2006, Hypoguard reached their sales milestone. We have accrued for the additional $500,000 in other payables in the financial statements as it was earned at the end of September 30, 2006. This additional payment has been included in the initial purchase price. The purchase price was preliminarily allocated between fixed assets for $178,573, inventory for $149,821, other intangibles (Customer Relationships) for $300,000 and goodwill for $661,683. Customer Relationships will be amortized on an accelerated basis over 5 years. Disposable safety scalpels are used in various medical procedures for the purpose of minimizing accidents to health care workers. Merit intends to use scalpel product line and technology to broaden product offerings related to customs kits, procedure trays and OEM business.

On August 1, of 2006, Merit entered in an exclusive agreement with a medical device company to purchase the product know-how and formulas for medical products for approximately $1.0 million. During the third quarter of 2006, we made two installment payments totaling $501,037 and accrued in other payables for $241,464 for an additional payment in accordance with SFAS No. 141, *Business Combination,* paragraph 26 and 27, as we consider it is certain upon a reasonable doubt that the contingent payment will occur through the passage of time. Also, in accordance with SFAS No. 141, *Business Combination,* paragraph 26 and 27, we have not recorded a fourth payment due of approximately $250,000 as it is not certain upon a reasonable doubt that the criteria obligating by us to pay will in fact occur. If the final earn out payment occurs it will be included in the initial purchase price. The purchase price was allocated to other intangible for $742,501 (Product Technology). With the product know-how and formulas pursuant to this exclusive agreement, we intend to develop and replace certain current products. We also intend to improve our product quality, reduce costs and expand our market potential.

7. Recent Accounting Pronouncements. In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS 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. 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 SFAS 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 are currently reviewing the requirements of SFAS 157 and, at this point in time, have not determined what impact, if any, SFAS 157 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. This statement permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective 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. This statement 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 are currently reviewing the requirements of SFAS 159 and, at this point in time, have not determined the impact, if any, that this statement may have on our results of operations and financial position.

8. Income Taxes. In July 2006, the FASB issued Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*, which clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with SFAS 109, *Accounting for Income Taxes*. Under FIN 48, tax positions shall initially be recognized in the financial statements when it is more likely than not the position will be sustained upon examination by the tax authorities. Such tax positions shall initially and subsequently be measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the tax authority assuming full knowledge of the position and all relevant facts.

We adopted the provisions of FIN 48 on January 1, 2007. As a result of this adoption, we recognized a cumulative-effect adjustment of approximately $610,000, increasing our liability for unrecognized tax benefits and reducing the January 1, 2007 balance of retained earnings. The total liability for unrecognized tax benefits at January 1, 2007, including temporary tax differences, was approximately $3.4 million, of which approximately $1.7 million would favorably impact our effective tax rate if recognized. As of January 1, 2007, we accrued approximately $228,000 in interest and penalties related to unrecognized tax benefits. We account for interest expense and penalties for unrecognized tax benefits as part of our income tax provision. We do not anticipate that unrecognized tax benefits will significantly increase or decrease within 12 months of the reporting date.

During the three and nine-month periods ended September 30, 2007, we recorded a benefit of approximately $308,000 and $36,000, respectively, related to the reversal of unrecognized tax benefits that have favorably impacted our effective tax rate. The income tax benefit of approximately $308,000 recorded during the third quarter of 2007 related to the lapsing of the statue of limitations on federal and state tax returns. Included in these amounts is a decrease of approximately $39,000 and an increase of approximately $3,000 for the three and nine-month periods ended September 30, 2007, respectively, related to interest expense and penalties. The total outstanding balance for liabilities related to unrecognized tax benefits at September 30, 2007 was $3.4 million.

Our federal and state income tax returns for 2002 through 2006 are open tax years. We are in several foreign tax jurisdictions which have open tax years from 2003 through 2006.

9. Subsequent Events. On November 2, 2007, we entered into a nonbinding agreement to buy the cardiac and peripheral catheter technology and inventory from Micrus Endovascular Corporation for $3.0 million. We expect to close the deal by the end of the year.

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, 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 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 will vary, and may vary materially, from those projected or assumed in the forward-looking statements. Our 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, changes in customer preferences, order volumes or shifts in demand for our products, 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, 2006. 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 Risk Factors beginning on page 17 below.

Overview

For the quarter ended September 30, 2007 we reported revenues of $50.6 million, up 8% from the three months ended September 30, 2006 of $46.7 million. Revenues for the nine months ended September 30, 2007 were a record $153.4 million, compared with $139.9 million for the same nine months in 2006, a gain of 10%.

Gross margins were 39.1% and 37.9% of sales for the three and nine-month periods ended September 30, 2007, respectively, compared to 38.7% of sales for both the three and nine-month periods ended September 30, 2006, respectively. This was the first quarter in 13 months that our gross margin percentage increased, as compared to the corresponding quarter of the prior year. The increase in gross margin percentage for the third quarter of 2007, as compared to the third quarter of 2006, was primarily attributed to production efficiencies resulting in lower production headcount, product mix improvement, the transfer of the manufacturing process of four products to Mexico, and the completion of certain automation projects. The decrease in gross margin percentage for the nine months ended September 30, 2007, when compared to the prior year period, was primarily attributed to an increase in wages, additional headcount, an increase in the sale of lower-margin kits, inventory obsolescence and higher health benefit costs. We continue to focus our efforts on improving gross margins through production efficiencies, automation projections, transfer of product production to Mexico, raising some customers prices, and discontinuing some lower-margin business.

Net income was up for the three months ended September 30, 2007 to $4.3 million, compared to $3.3 million for the same period of 2006, an increase of 29%. For the nine-month period ended September 30, 2007 net income increased to $10.9 million, compared to $9.2 million for the same period of 2006, an increase of 17%.

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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, 2007 and 2006:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	**2006**	**2007**	**2006**
Sales	100.0%	100.0%	100.0%	100.0%
Gross profit	39.1	38.7	37.9	38.7
Selling, general and administrative expenses	23.1	23.2	23.2	24.0
Research and development expenses	3.9	4.5	4.3	4.4
Income from operations	12.0	11.0	10.5	10.2
Other income	0.2	0.2	0.2	0.1
Net income	8.5	7.1	7.1	6.6

<u>Sales.</u> Sales for the three months ended September 30, 2007 increased by 8%, or approximately $3.9 million, compared to the same period of 2006. Sales for the nine months ended September 30, 2007 increased by 10%, or approximately $13.6 million, compared to the same period of 2006. We currently report sales in four product categories. Listed below are the sales relating to these product categories for the three and nine-month periods ended September 30, 2007 and 2006 (in thousands).

		Three Months Ended September 30,			Nine Months Ended September 30,	
	% Change	**2007**	**2006**	**% Change**	**2007**	**2006**
Stand-alone devices	9%	$ 15,293	$ 14,063	12%	$ 45,814	$ 41,016
Custom kits and procedure trays	2%	13,902	13,611	10%	45,135	41,120
Inflation devices	10%	14,917	13,550	4%	43,451	41,715
Catheters	18%	6,472	5,473	19%	19,025	16,007
Total	8%	$ 50,584	$ 46,697	10%	$ 153,425	$ 139,858

The sales growth of 8% for the third quarter of 2007, when compared to the same period of 2006, was favorably affected by increased sales of inflation devices to an OEM customer, stand-alone devices (MCTec metal coated products, sensor based products and maps), and catheters (Prelude® sheath product line, Resolve® locking drainage catheters and the Proguide chronic dialysis catheter). The sales growth of 10% for the nine month-period ended September 30, 2007, when compared to the same period of 2006, was favorably affected by increased sales of custom kits and procedure trays (of which 80% came from increased sales of procedure trays), stand-alone devices (maps, stopcocks and safety scalpels) and catheters (particularly our Mini Access Kit catheter product line, Prelude® sheath product line and Resolve® locking drainage catheter line).

<u>Gross Profit.</u> Gross margins were 39.1% and 37.9% of sales for the three and nine-month periods ended September 30, 2007, respectively, compared to 38.7% of sales for both the three and nine-month periods ended September 30, 2006, respectively. The increase in gross margin percentage for the third quarter of 2007, as compared to the third quarter of 2006, was primarily attributed to production efficiencies resulting in lower headcount, product mix improvement, the transfer of the manufacturing process of four products to Mexico, and the completion of certain automation projects. The decrease in gross margins for the nine months ended September 30, 2007, when compared to the prior year period, was primarily attributed to an increase in wages, additional headcount, an increase in the sale of lower-margin kits, inventory obsolescence and

higher health benefit costs.

Operating Expenses. Selling, general and administrative expenses were down slightly at 23.1% of sales for the three months ended September 30, 2007, compared with 23.2% of sales for the three months ended September 30, 2006. For the nine months ended September 30, 2007, selling, general and administrative expenses decreased to 23.2% compared with 24.0% of sales for the nine months ended September 30, 2006. The decrease in selling, general and administrative expenses as a percentage of sales during the three and nine-month periods ended September 30, 2007, when compared to the comparable period of 2006, was due primarily to increased operating leverage resulting, in large part, from hiring 17 additional sales representatives during the second half of 2005. Research and development expenses decreased to 3.9% of sales for the three months ended September 30, 2007, compared with 4.5% of sales for the three months ended September 30, 2006. This decrease was primarily attributable to an accrued benefit received for a research and development grant obtained from the Irish Development Agency for the development of a new product in Ireland. Research and development expenses were down slightly at 4.3% compared with 4.4% of sales for the nine-month periods ended September 30, 2007 and 2006, respectively.

Other Income. Other income for the third quarter of 2007 was approximately $100,000, compared to other income of approximately $89,000 for the same period in 2006. Other income for the nine months ended September 30, 2007 was approximately $250,000, compared to other income of approximately $134,000 for the same period in 2006. The net change in other income for the three and nine-month periods ended September 30, 2007 when compared to the same periods in 2006 was primarily the result of an increase in interest income as the result of a higher average cash balances and higher interest rates, when compared to the same period in 2006.

Income Taxes. Our effective tax rate for the three months ended September 30, 2007 was 30.5%, compared to 36.4% for the same period of 2006. For the nine months ended September 30, 2007, our effective tax rate was 33.3%, compared to 36.0% for the same period in 2006. The decrease in the effective tax rate for the three and nine-month periods ended September 30, 2007, when compared to the comparable periods of 2006, was primarily the result of FIN 48 adjustment of approximately $308,000 of unrecognized tax benefits which expired for federal and state tax returns on September 15, 2007.

Income. During the third quarter of 2007, we reported income from operations of $6.1 million, an increase of 18%, up from $5.1 million for the comparable period in 2006. For the nine months ended September 30, 2007, we reported income from operations of $16.0 million, an increase of 12% from $14.3 million for the comparable period in 2006. When compared to the comparable periods of 2006, income from operations for the three and nine-month periods ended September 30, 2007 was positively affected by increased sales volumes, lower selling, general and administrative expenses as a percentage of sales and lower research and development expenses as a percentage of sales. Gross margins for the three months ended September 30, 2007, when compared to the prior year period, contributed towards increased income from operations for the third quarter of 2007. These factors, along with a lower effective tax rate, contributed to higher net income of $4.3 million and $10.9 million for the three and nine-month periods ended September 30, 2007, respectively, compared to net income of $3.3 million and $9.2 million for the same periods of 2006.

Liquidity and Capital Resources

At September 30, 2007, we had $12.2 million in cash and cash equivalents. These amounts consisted of cash, commercial paper and municipal bonds. This balance represents a $2.4 million increase in cash when compared to cash and cash equivalents at December 31, 2006.

Our working capital as of September 30, 2007 and December 31, 2006 was $55.9 million and $55.0 million, respectively. Our day s sales outstanding (DSO) on trade receivables improved from 48 DSO at 2006 year-end to 43 DSO at September 30, 2007. We generated cash from operations for the nine months ended September 30, 2007 in the amount of $21.9 million, an increase of 49%, from $14.7 for the comparable period in 2006. This increase was primarily the result of a decrease in inventory of $2.4 million for the nine months ended September 30, 2007, when compared to the comparable period in 2006, which had an increase of $5.1 million in inventory. As of September 30, 2007, we had a current ratio of 3.7 to 1.

On December 7, 2006, we entered into an unsecured loan agreement with Bank of America, whereby they agreed to provide us a line of credit in the amount of $30 million, expiring on December 7, 2010. In addition, on December 8, 2006, we entered into an unsecured loan agreement with Zion s First National Bank, whereby they agreed to provide us with a line of credit in the amount of $1 million. We had $0 outstanding under our lines of credit at September 30, 2007.

Historically, we have incurred significant expenses in connection with product development and introduction of new products. Our principal sources of funding for these and other expenses have historically 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 to conduct our current operations for the foreseeable future.

Contractual Obligations

We have certain fixed contractual lease and royalty obligations that include future estimated payments. These commitments are discussed in our Annual Report on Form 10-K for the year ended December 31, 2006 in our Management s Discussion and Analysis of Financial Condition and Results of Operations under Capital Commitments. We adopted the provisions of Financial Accounting Standards Board Interpretation (FIN) No. 48 for unrecognized tax positions on January 1, 2007. We are subject to income tax audits by federal, state and foreign tax authorities. If under examination by tax authorities we are unsuccessful in our unrecognized tax positions, future tax payments may be required. Although, we are currently under audit by the Internal Revenue Service for years 2002 and 2004, we are unaware of any material future payments that may be required at this time related to these ongoing audits. Based on uncertainties associated with the settlement of these items, we are unable to make reasonably reliable estimates of the period of potential cash settlements, if any, with taxing authorities.

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 requires management s most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. We base our estimates on past experience and on various other assumptions our management believes to be reasonable under the circumstances, the results of which form the basis for making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results will differ, and may differ materially, from these estimates under different assumptions or conditions. Additionally, changes in accounting estimates could occur in the future from period to period. 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: On a regular basis, our management reviews 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 dates. If market conditions become less favorable than those projected by our management, then 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 $2.2 million as of September 30, 2007.

Allowance for Doubtful Accounts: A majority of our receivables are with hospitals which, over our history, have demonstrated favorable collection rates. Therefore, we have experienced relatively minimal bad debts from hospital customers. In limited circumstances, we have 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 approximately $530,000 at September 30, 2007, which is in line with our historical collection experience.

Stock-Based Compensation: We account for stock-based compensation in accordance with SFAS No. 123(R), *Share-Based Payment*. Under the fair value recognition provisions of this statement, we measure share-based compensation cost at the grant date based on the value of the award and recognize the cost as an expense over the term of the vesting period. Judgment is required in estimating the amount of share-based awards that are expected to be forfeited. If actual results differ significantly from these estimates, stock-based compensation expense and our results of operations could be materially impacted.

Income Taxes: We adopted the provisions of FIN 48 effective January 1, 2007. Under FIN 48, tax positions shall initially be recognized in the financial statements when it is more likely than not the position will be sustained upon examination by the tax authorities. Such tax positions shall initially and subsequently be measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the tax authorities assuming full knowledge of the position and all relevant facts. Although we believe our provisions for FIN 48 unrecognized tax positions are reasonable, we can make no assurance that the final tax outcome of these matters will not be different from that which we have reflected in our income tax provisions and accruals. The tax law is subject to varied interpretations, and we have taken positions related to certain matters where the law is subject to interpretation. Such differences could have a material impact on our income tax provisions and operating results in the period(s) in which we make such determination.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our principal market risk relates to changes in the value of the Euro and Great Britain Pound (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 ($5.6 million, representing approximately 11.1% of aggregate revenues), for the quarter ended September 30, 2007 was attributable to sales that were denominated in Euros, Danish Krone, Swedish Krone and GBPs. Certain expenses are denominated in Euros, Danish Krone, Swedish Krone and GBPs, which partially offsets risks associated with fluctuations of exchanges 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 quarter ended September 30, 2007, the exchange rate between the Euro and GBP against the U.S. Dollar resulted in an increase of our gross revenues of approximately $352,000 and 0.06% in gross profit.

At September 30, 2007, we had a net exposure representing the difference between Euro and GBP denominated receivables and Euro and GBP denominated payables of approximately 504,000 and £313,000, respectively. In order to partially offset such risks, at August 31, 2007, we entered into a 30-day forward contract for Euro and GBP. We generally enter into similar economic 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. These 30-day forward foreign exchange contracts are not expected to have a material effect on our financial statements, given the small amounts hedged. During the three and nine-month periods ended September 30, 2007, we experienced a net gain of approximately $3,000 and net loss of approximately $19,000, respectively, on hedging transactions we executed during those periods in an effort to limit our exposure to fluctuations in the Euro and GBP against the U.S. Dollar exchange rates.

As of September 30, 2007, 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

(a) Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the Exchange Act), as of September 30, 2007. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief

Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

(b) Changes in Internal Control Over Financial Reporting

There were no significant changes (including corrective actions with regard to material weaknesses) in our internal control over financial reporting that occurred during the period covered by this Report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1A. RISK FACTORS

In addition to other information set forth in this Report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2006, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing Merit. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and/or operating results.

ITEM 2. UNREGISTERED SALES OF EQUITY AND USE OF PROCEEDS

The following table presents our repurchases of common stock for each of the three months included in the quarter ended September 30, 2007:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1)
July 1 - 31, 2007	60,100	$ 11.25		
August 1 - 31, 2007	47,000	11.20		
September 1 - 30, 2007			119,900	1,280,100

(1) On April 30, 2007 our Board of Directors approved the repurchase of up to 1,400,000 shares of our common stock. We intend to make repurchases from time to time based on market conditions.

ITEM 5. OTHER INFORMATION

On November 7, 2007, our Board of Directors unanimously approved a resolution providing for the amendment and restatement of our Bylaws. A copy of the Amended and Restated Bylaws approved by our Board of Directors and which became effective on November 7, 2007 is attached hereto as Exhibit 3.3 to this Report.

The following paragraphs summarize the principal provisions of our Amended and Restated Bylaws which modify our prior Bylaws. The following summary does not provide a complete description of all of the provisions of the Amended and Restated Bylaws, and is qualified in its entirety by reference to the copy of the Amended and Restated Bylaws attached hereto as Exhibit 3.3.

The Amended and Restated Bylaws provide, among other things, that our annual meeting of shareholders (the Annual Meeting) will be held at a date and time designated by our Board of Directors, and requires that shareholders receive notice of each Annual Meeting not less than ten nor more than 60 days prior to the date of such meeting. Our prior Bylaws stipulated that the Annual Meeting was to take place on the second Tuesday in May of each year, with notice required not more than 50 days prior to that date. The Amended and Restated Bylaws also address how business may be properly brought before an Annual Meeting by a shareholder, whereas our prior Bylaws did not address such matters. These amendments include advance notice and other procedural requirements and disclosure and summary information requirements related to proposals and the shareholder making the proposal.

The Amended and Restated Bylaws provide that our Board of Directors shall consist of not less than three nor more than nine directors and shall be divided into three roughly equivalent classes. This provision is consistent with our Articles of Incorporation, as amended by our shareholders in 1997. Our prior Bylaws provided that the initial number of directors serving on our Board of Directors was set at three. The Amended and Restated Bylaws also provide that the maximum number of directors may not be increased without the approval of two-thirds of the outstanding shares of our outstanding capital stock and notice of any special meeting of our Board of Directors must be given at least 24 hours prior to such meeting, as opposed to the two-day requirement of our prior Bylaws.

Other corporate governance matters addressed in our Amended and Restated Bylaws were not addressed in our prior Bylaws, including the procedure by which a shareholder may nominate a person for election as a director at an Annual Meeting or a special meeting of our shareholders, as well as the designation of committees by our Board of Directors.

The Amended and Restated Bylaws also address the issue of indemnification of our directors and officers and other individuals. Article XI of our prior Bylaws included a general provision providing for the indemnification of our directors and officers against expenses actually and reasonably incurred in defense of a civil or criminal suit in which the director or officer was made a party by reason of his or her position as a director or officer of Merit. The Amended and Restated Bylaws modify Article XI to provide for both mandatory and voluntary indemnification of directors and officers. Article XI of the Amended and Restated Bylaws requires us to indemnify directors and officers who have successfully defended a claim or suit brought by reason of their being a director or officer of Merit. In contrast, Article XI of the Amended and Restated Bylaws allows us to voluntarily indemnify director or officer only if, among other requirements, (i) we have authorized the payment in accordance with certain statutory provisions, (ii) the director or officer reasonably believed that his or her conduct was in Merit s best interests and that such conduct, in all other cases, was at least not opposed to Merit s best interests, and (iii) in the case of a criminal proceeding, the director or officer had no reasonable cause to believe his or her conduct was unlawful. In the event we are authorized to voluntarily indemnify a director or officer under Article XI of the Amended and Restated Bylaws, we may only reimburse the director or officer for reasonable expenses incurred by such director or officer in defense of the relevant claims. The Amended and Restated Bylaws do not permit us to indemnify a director or officer in any proceeding by Merit or in Merit s right involving receipt of an improper personal benefit by such individual. In addition, Article XI of the Amended and Restated Bylaws addresses, among other things, court-ordered indemnification, insurance, advancement of expenses, and the indemnification of various other individuals.

ITEM 6. EXHIBITS

Exhibit No.	Description
3.3	Amended and Restated Bylaws of Merit Medical Systems, Inc.
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

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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, 2007	/s/ Fred P. Lampropoulos FRED P. LAMPROPOULOS PRESIDENT AND CHIEF EXECUTIVE OFFICER
Date: November 8, 2007	/s/ Kent W. Stanger KENT W. STANGER CHIEF FINANCIAL OFFICER