BRINKS CO
Form DEF 14A
March 20, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x

Filed by a Party other than the Registrant o

Check the appropriate box:

o	Preliminary Proxy Statement
o	Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
x	Definitive Proxy Statement
o	Definitive Additional Materials
o	Soliciting Material Pursuant to §240.14a-12

The Brink s Company

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

The Brink s Company
1801 Bayberry Court
P.O. Box 18100
Richmond, VA 23226-8100

Michael T. Dan
Chairman,
President and Chief Executive Officer

March 20, 2008

To Our Shareholders:

You are cordially invited to attend the annual meeting of shareholders of The Brink s Company to be held at The Ritz-Carlton New York, Central Park, 50 Central Park South, New York, New York, on Friday, May 2, 2008, at 1:00 p.m., local time.

You will be asked to: (i) elect five directors for a term of three years; (ii) approve The Brink s Company Non-Employee Directors Equity Plan; and (iii) approve an independent registered public accounting firm for the fiscal year ending December 31, 2008.

It is important that you vote, and we urge you to complete, sign, date and return the enclosed proxy in the envelope provided.

We appreciate your prompt response and cooperation.

Sincerely,

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD MAY 2, 2008

Notice Is Hereby Given that the annual meeting of shareholders of THE BRINK S COMPANY will be held on May 2, 2008, at 1:00 p.m., local time, at The Ritz-Carlton New York, Central Park, 50 Central Park South, New York, New York, for the following purposes:

1. To elect five directors for a term expiring in 2011.

2. To approve The Brink s Company Non-Employee Directors Equity Plan.

3. To approve the selection of KPMG LLP as an independent registered public accounting firm to audit the accounts of the Company and its subsidiaries for the fiscal year ending December 31, 2008.

4. To transact such other business as may properly come before the meeting or any adjournment thereof.

The close of business on February 26, 2008 has been fixed as the record date for determining the shareholders entitled to notice of and to vote at the annual meeting.

Whether or not you expect to attend the annual meeting in person, please complete, date and sign the enclosed proxy and return it in the enclosed envelope, which requires no additional postage if mailed in the United States. We appreciate your prompt response.

Austin F. Reed
Secretary

March 20, 2008

The Annual Report to Shareholders, including financial statements, is being mailed to shareholders of record as of the close of business on February 26, 2008, together with these proxy materials, commencing on or about March 20, 2008.

Important notice regarding the availability of proxy materials for the shareholder meeting to be held on May 2, 2008.

The proxy statement and annual report to shareholders are available at http://brinkscompany.com/py/proxy08.pdf and http://brinkscompany.com/ar/Brinks07.pdf.

YOUR VOTE IS IMPORTANT. PLEASE MARK, SIGN, DATE AND MAIL THE ENCLOSED PROXY CARD WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING. A RETURN ENVELOPE IS ENCLOSED FOR YOUR CONVENIENCE.

THE BRINK S COMPANY

PROXY STATEMENT

This proxy statement is furnished in connection with the solicitation by the Board of Directors of The Brink s Company (the Company) of proxies from holders of the Company s common stock (hereinafter Brink s Common Stock), to be voted at the annual meeting of shareholders to be held on May 2, 2008, at 1:00 p.m., local time, at The Ritz-Carlton New York, Central Park, 50 Central Park South, New York, New York (and at any adjournment or postponement thereof), for the purposes set forth in the accompanying notice of such meeting.

The close of business on February 26, 2008 has been fixed as the record date for determining the shareholders entitled to notice of and to vote at the annual meeting, and only shareholders of record at the close of business on that date will be entitled to vote at the meeting and any adjournment thereof. On February 26, 2008, the Company had outstanding 48,056,236 shares of Brink s Common Stock, the holders thereof being entitled to one vote per share on all matters that the Board of Directors knows will be presented for consideration at the annual meeting.

This proxy statement and the accompanying form of proxy and Annual Report to Shareholders are being mailed to shareholders of record as of the close of business on February 26, 2008, commencing on or about March 20, 2008. The mailing address of the principal executive office of the Company is 1801 Bayberry Court, P.O. Box 18100, Richmond, VA 23226-8100.

The election of directors, the approval of The Brink s Company Non-Employee Directors Equity Plan and the selection of an independent registered public accounting firm are the only matters that the Board of Directors knows will be presented for consideration at the annual meeting. The shares of Brink s Common Stock represented by proxies solicited by the Board of Directors will be voted in accordance with the recommendations of the Board of Directors on these matters unless otherwise specified in the proxy, and where the person solicited specifies a choice with respect to any matter to be acted upon, the shares of Brink s Common Stock will be voted in accordance with the specification so made. As to any other business that may properly come before the annual meeting, it is intended that proxies in the enclosed form will be voted in respect thereof in accordance with the judgment of the person voting the proxies.

The Company s bylaws provide that the chairman of the annual meeting will determine the order of business, the voting and other procedures to be observed at the annual meeting. The chairman is authorized to declare whether any business is properly brought before the annual meeting, and business not properly brought before the annual meeting will not be transacted.

The enclosed proxy is revocable at any time prior to its being voted by filing an instrument of revocation or a duly executed proxy bearing a later time. A proxy may also be revoked by attendance at the annual meeting and voting in person. Attendance at the annual meeting will not by itself constitute a revocation.

Votes cast by shareholders will be treated as confidential in accordance with a policy approved by the Board of Directors. Shareholder votes at the annual meeting will be tabulated by the Company s transfer agent, American Stock Transfer & Trust Company.

CORPORATE GOVERNANCE

Board of Directors

The Board of Directors has the responsibility for establishing broad corporate policies and for the overall performance of the Company, exercising its good faith business judgment of the best interests of the Company. Members of the Board are kept informed of the Company s business by various reports sent to them regularly, as well as by operating and financial reports made at Board and Committee meetings by the President and Chief Executive Officer and other officers and members of management. During 2007, the Board met seven times.

Lead Director

As provided in the Company s Corporate Governance Policies, the Board has established the position of Lead Director, who is elected annually by the independent directors. The Lead Director, currently Mr. Barker, has the following roles and responsibilities:

- preside over meetings of the non-management and independent Board members and, as appropriate, provide prompt feedback to the Chief Executive Officer and Chairman;

- together with the Chief Executive Officer and Chairman, and with input from the non-management and independent Board members, prepare the Board s agenda;

- serve as a point of contact between non-management and independent Board members and the Chief Executive Officer and Chairman to report or raise matters;

- call executive sessions of the Board or of the non-management and independent Board members;

serve as a sounding board and mentor to the Chief Executive Officer and Chairman;

take the lead in assuring that the Board carries out its responsibilities in circumstances where the Chief Executive Officer and Chairman is incapacitated or otherwise unable to act; and

consult with the Chairman of the Compensation and Benefits Committee to provide performance feedback and compensation information to the Chief Executive Officer and Chairman.

Executive Sessions of the Board of Directors

The non-management members of the Board of Directors meet regularly without management present. As provided in the Company s Corporate Governance Policies, the Board has designated Mr. Barker as the Lead Director, and Mr. Barker presides over each meeting of the non-management and independent Board members.

Director Attendance at Meetings

During 2007, all incumbent directors attended at least 75% of the total number of meetings of the Board of Directors and of the committees of the Board on which they served.

Director Attendance at Annual Meeting

The Company has no formal policy with regard to Board members attendance at annual meetings. Ten of the twelve directors then in office attended the 2007 annual meeting of shareholders.

Board Independence

For a director to be deemed independent , the Board of Directors of the Company must affirmatively determine, in accordance with the listing standards of the New York Stock Exchange, that the director has no material relationship with the Company, either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company. In making this determination, the Board of Directors has adopted the following categorical standards as part of its Corporate Governance Policies:

1. A director who is, or has been within the last three years, an employee of the Company, or whose immediate family member is, or has been within the last three years, an executive officer of the Company, is not independent. Employment as an interim Chairman, Chief Executive Officer or other executive officer will not disqualify a director from being considered independent following such employment.

2. A director who has received, or who has an immediate family member serving as an executive officer who has received, during any twelve-month period within the last three years, more than $100,000 in direct compensation from the Company (excluding director and

committee fees and pensions or other forms of deferred compensation for prior service, provided such compensation is not contingent in any way on continued service), is not independent. Compensation received by a director for former service as an interim Chairman, Chief Executive Officer or other executive officer will not count toward the $100,000 limitation.

3. (A) A director who is, or whose immediate family member is, a current partner of a firm that is the Company s internal or external auditor; (B) a director who is a current employee of such a firm; (C) a director who has an immediate family member who is a current employee of such a firm and who participates in the firm s audit, assurance or tax compliance (but not tax planning) practice; or (D) a director who was, or whose immediate family member was, within the last three years (but is no longer) a partner or employee of such a firm and personally worked on the Company s audit within that time, in any such instance ((A)-(D)) is not independent.

4. A director who is, or has been within the last three years, or whose immediate family member is, or has been within the last three years, employed as an executive officer of another company where any of the Company s present executive officers at the same time serves or served on that company s compensation committee, is not independent.

5. A director who is a current employee, or whose immediate family member is a current executive officer, of a company that has made payments to, or received payments from, the Company for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of $1 million, or 2% of such other company s consolidated gross revenues, is not independent.

The Board of Directors of the Company has affirmatively determined that all of the members of the Board of Directors, except Mr. Dan, are independent under the listing standards of the New York Stock Exchange and the categorical standards described above. The Board of Directors has not yet made an independence determination with respect to Mr. Wetzel, a nominee for election to the Board of Directors, but it is expected that this determination will be made at its next regularly scheduled meeting.

Audit and Ethics Committee

The Audit and Ethics Committee (the Audit Committee), established in accordance with section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended (the Exchange Act), operates under a written charter, which is available as described under Other Information Availability of Documents . The Audit Committee oversees the integrity of regular financial reports and other financial information provided by the Company to the Securities and Exchange Commission (the SEC) or the public, recommends the selection by shareholders at their annual meeting of an independent registered public accounting firm, confers with the Company s independent registered public accounting firm to review the plan and scope of their proposed audit as well as their findings and recommendations upon the completion of the audit, and meets with the independent registered public accounting firm and with appropriate Company financial personnel and internal auditors regarding the Company s internal controls, practices and procedures. The Audit Committee also oversees the Company s legal and business ethics compliance programs. The Audit Committee currently consists of Mr. Brinzo, as Chairman, and Messrs. Breslawsky, Martin, Mosner and Smart. The Board has examined the composition of the Audit Committee and found the members to meet the independence requirements set forth in the listing standards of the New York Stock Exchange and in accordance with the Audit Committee charter. The Board of Directors has identified Messrs. Brinzo, Breslawsky, Martin and Mosner as audit committee financial experts as that term is defined in the rules promulgated by the SEC pursuant to the Sarbanes-Oxley Act of 2002. The Board of Directors has also determined that each of the members of the Audit Committee is financially literate and has accounting or related financial management expertise as such terms are interpreted by the Board of Directors in its business judgment. None of the Company s Audit Committee members simultaneously serve on more than two other public company audit committees. The Audit Committee met nine times during 2007.

Procedures for Pre-Approval of Audit and Non-Audit Services. The Audit Committee has adopted procedures for pre-approving certain specific audit and non-audit services provided by the independent registered public accounting firm. The pre-approved services are described in detail under three categories: audit and audit-related, tax services and agreed upon procedures. Requests for services are reviewed by the Company s Legal Department and Finance Department to ensure that they satisfy the requirements of the pre-approval policy. The Audit Committee is provided a detailed update of these audit and non-audit engagements at each regular meeting.

Procedures for Review and Approval of Related Person Transactions. The Company has adopted a policy regarding the review and approval of related person transactions. In the event that the Company proposes to enter into a related person transaction, the transaction must be recommended to the Audit Committee. As provided in its charter, the Audit Committee is required to review and approve each related person transaction and any disclosures that are required by Item 404 of Regulation S-K. The Audit Committee reviews each related person transaction on a case by case basis.

For purposes of this policy, a related person transaction has the same meaning as in Item 404 of Regulation S-K: a transaction, arrangement or relationship (or any series of related transactions, arrangements or relationships) in which the Company is, was or will be a participant and the amount involved exceeds $120,000 and in which any related person has, had or will have a direct or indirect material interest.

For purposes of this policy, a related person has the same meaning as in Item 404 of Regulation S-K: any person who was a director, a nominee for director or an executive officer of the Company during the Company s preceding fiscal year (or an immediate family member of such a director, nominee for director or executive officer of the Company) or a beneficial owner of more than five percent of the outstanding Brink s Common Stock (or an immediate family member of such owner).

Compensation and Benefits Committee

The Compensation and Benefits Committee (the Compensation Committee) operates under a written charter, which is available as described under Other Information Availability of Documents . The Compensation Committee is responsible for establishing and reviewing policies governing salaries and benefits, annual performance awards, incentive compensation and the terms and conditions of employment for the Chief Executive Officer and each of the other named executive officers. For a further discussion of the Compensation Committee, see Compensation Discussion and Analysis Process for Setting Executive Compensation . The Compensation Committee currently consists of Mr. Turner, as Chairman, and Messrs. Ackerman, Martin and Sloane. The Board has examined the composition of the Compensation Committee and found the members to meet the independence requirements set forth in the listing standards of the New York Stock Exchange and in accordance with the Compensation Committee charter. The members of the Compensation Committee are non-employee directors (within the meaning of Rule 16b-3 of the Exchange Act) and outside directors (within the meaning of Section 162(m) of the Internal Revenue Code). The Compensation Committee met five times during 2007.

Corporate Governance, Nominating and Management Development Committee

The Corporate Governance, Nominating and Management Development Committee (the Corporate Governance Committee), operates under a written charter, which is available as described under Other Information Availability of Documents . The Corporate Governance Committee oversees the governance of the Company and recommends to the Board nominees for election as directors and as senior executive officers of the Company, as well as reviewing the performance of incumbent directors in determining whether to recommend them to the Board for renomination. The Corporate Governance Committee currently consists of Mr. Breslawsky, as Chairman, Mrs. Alewine and Messrs. Smart and Turner. The Board has examined the composition of the Corporate Governance Committee and found the members to meet the independence requirements set forth in the listing standards of the New York Stock Exchange and in accordance with the Corporate Governance Committee charter. The Corporate Governance Committee met five times during 2007.

Director Compensation

It is the responsibility of the Corporate Governance Committee to recommend to the Board any changes in Board compensation. The Board makes the final determination with respect to Board compensation. The Corporate Governance Committee will consider whether directors independence may be jeopardized if director compensation and perquisites exceed customary levels, if the Company makes substantial charitable contributions to organizations with which a director is affiliated, or if the Company enters into consulting contracts with (or provides other indirect forms of compensation to) a director or an organization with which the director is affiliated.

The Corporate Governance Committee reviews Board compensation annually. The Company s Human Resources Department provides support to the Corporate Governance Committee in this review process. In addition, the Corporate Governance Committee engaged Frederic W. Cook & Co., Inc. (the Cook firm) in 2007 as the Corporate Governance Committee s director compensation consultant to provide a director compensation study and report to the Corporate Governance Committee. The Corporate Governance Committee requested that the Cook firm (1) conduct an independent review of the design and competitiveness of the Company s director compensation, including an overview of the Company s director compensation and a competitive evaluation of each of the Board compensation components, and (2) provide information on director compensation trends and observations and recommendations regarding potential changes to director compensation. For purposes of the competitive evaluation, the Cook firm created a peer group of 20, similarly sized, diversified service companies. Based on the results of the Cook firm study and report and a further Cook firm report outlining certain recommended changes to the Company s Directors Stock Accumulation Plan, the Corporate Governance Committee decided to recommend certain changes to the Directors Stock Accumulation Plan and the Board made those recommended changes in 2007.

In addition, certain changes to Board compensation programs were adopted in light of guidance issued in 2007 by the Internal Revenue Service under Section 409A of the Internal Revenue Code. Further, in connection with the termination of the Non-Employee Directors Stock Option Plan on May 11, 2008, the Corporate Governance Committee recommended to the Board, and the Board is in turn recommending to the Company s shareholders, approval of The Brink s Company Non-Employee Directors Equity Plan. If approved by the Company s shareholders, this new equity plan will replace the Non-Employee Directors Stock Option Plan for future equity grants to non-employee directors. For a discussion of the elements of the compensation of the Board and the changes that occurred in 2007, see Director Compensation .

Finance Committee

The Finance Committee, which was known as the Finance and Pension Committee until July 2007, recommends to the Board dividend and other actions and policies regarding the financial affairs of the Company and is responsible for oversight of the Company s Pension-Retirement Plan and 401(k) Plan and any similar plans that may be maintained from time to time by the Company. The Finance Committee also has general oversight responsibility for pension plans maintained by foreign and other subsidiaries of the Company. The Finance Committee has authority to adopt amendments to the Company s Pension-Retirement Plan, Pension Equalization Plan and 401(k) Plan. In carrying out these responsibilities, the Finance Committee coordinates with the appropriate financial, legal and administrative personnel of the Company, including the Company s Oversight Committee (a committee of senior management with shared responsibility over certain of the Company s retirement plans), as well as outside experts retained in connection with the administration of those plans. The Finance Committee currently consists of Mrs. Alewine, as Chairwoman, and Messrs. Ackerman, Barker, Brinzo and Hudson, none of whom is an officer or employee of the Company or any of its subsidiaries. The Finance Committee met five times during 2007.

Strategy Committee

The Strategy Committee currently consists of Mr. Martin, as Chairman, and Messrs. Ackerman, Hudson, Mosner and Sloane, none of whom is an officer or employee of the Company or any of its subsidiaries. The Strategy Committee met five times during 2007.

Executive Committee

The Executive Committee of the Board may exercise substantially all the authority of the Board during the intervals between the meetings of the Board. The Executive Committee currently consists of Mr. Dan, as Chairman, and all other directors, except that a quorum of the Executive Committee consists of one-third of the number of members of the Executive Committee, three of whom must not be employees of the Company or any of its subsidiaries. The Executive Committee did not meet during 2007.

Director Nominating Process

The Company s Corporate Governance Policies contain information concerning the responsibilities of the Corporate Governance Committee with respect to identifying and evaluating director candidates. Both the Corporate Governance Committee Charter and the Corporate Governance Policies are available as described under Other Information Availability of Documents .

The Corporate Governance Committee s charter provides that the Corporate Governance Committee will consider director candidate recommendations by shareholders. Shareholders should submit any such recommendations for the Corporate Governance Committee through the method described below under Communications with Non-Management Members of the Board of Directors . In accordance with the Company s bylaws, any shareholder of record entitled to vote for the election of directors at the applicable meeting of shareholders may nominate persons for election to the Board of Directors, if such shareholder complies with the notice procedures set forth in the bylaws and summarized in the section of this proxy statement entitled Other Information Shareholder Proposals .

The Corporate Governance Committee evaluates all director candidates in accordance with the director membership criteria described in the Corporate Governance Policies. The Corporate Governance Committee evaluates any candidate s qualifications to serve as a member of the Board based on the skills and characteristics of individual Board members as well as the composition of the Board as a whole. In addition, the Corporate Governance Committee will evaluate a candidate s business experience, diversity, international background, the number of other directorships held and leadership capabilities, along with any other skills or experience that would be of assistance to management in operating the Company s business.

The Corporate Governance Committee employs several methods for identifying and evaluating director nominees. The Corporate Governance Committee periodically assesses whether any vacancies on the Board are expected due to retirement or otherwise and, in the event that vacancies are anticipated, the Committee considers possible director candidates. The Corporate Governance Committee has used professional search firms to identify candidates based upon the director membership criteria described in the Corporate Governance Policies.

On February 8, 2007, the Company and Pirate Capital LLC entered into a letter agreement pursuant to which Thomas R. Hudson Jr. was appointed to the Board and was nominated and recommended by the Board for election to the Board at the Company s 2007 annual meeting of shareholders. Mr. Hudson was also appointed to the Strategy Committee, the Finance and Pension Committee (now the Finance Committee) and the Executive Committee of the Board, and the Company agreed to reimburse Pirate Capital for certain expenses incurred in connection with its shareholder proposals. Pirate Capital agreed to withdraw its previously submitted nominations.

On February 25, 2008, the Company and MMI Investments, L.P. (MMI) entered into a settlement agreement pursuant to which Carroll R. Wetzel, Jr. is to be nominated and recommended for election to the Board at the 2008 annual meeting of shareholders. Pursuant to the settlement agreement, Mr. Wetzel, if elected to the Board, will be appointed to the Strategy Committee, the Finance Committee and the Executive Committee of the Board. Upon the consummation of the Company s contemplated spin-off of Brink s Home Security (BHS), Mr. Wetzel will be appointed to the board of directors of the entity that will hold BHS following the consummation of the spin- off and the securities of which will be distributed to the Company s shareholders in the spin-off, provided that Mr. Wetzel resigns from the Board effective upon consummation of the spin-off. Upon his appointment, Mr. Wetzel will also be appointed to the Executive Committee, the Strategy Committee and the Finance Committee of the board of directors of that entity (or such committees of that entity performing the same functions as the identified committees currently perform for the Company). At that time, Robert J. Strang will be appointed to the Board as Mr. Wetzel s replacement. MMI has agreed to withdraw its previously submitted nominations.

The Company also agreed to reimburse MMI for certain expenses incurred in connection with its shareholder proposals, including payments made by MMI to Mr. Wetzel to serve as its nominee, as well as costs associated with the termination of the arrangements between MMI and Mr. Wetzel. Mr. Wetzel has confirmed to the Company that, as consideration for agreeing to serve as MMI s nominee, he received from MMI a $25,000 up-front payment, 7,500 stock appreciation rights linked to the value of Brink s Common Stock, and reimbursement of reasonable expenses associated with his nomination up to $5,000. He was also to receive from MMI an additional 2,500 stock appreciation rights if any MMI nominee was elected to the Board of Directors of the Company. Mr. Wetzel has confirmed to the Company that on February 29, 2008, Mr. Wetzel and MMI terminated these agreements. Pursuant to the termination agreement, Mr. Wetzel is to receive a cash payment from MMI of $200,000 in lieu of the stock appreciation rights he was to receive or might have received from MMI under the previous arrangements.

The Company did not receive any notice of a director candidate recommended by a shareholder or group of shareholders owning more than 5% of the Company s voting common stock for at least one year as of the date of recommendation on or prior to November 24, 2007, the date that is 120 days before the anniversary of the prior year s release of the proxy statement.

Communications with Non-Management Members of the Board of Directors

The Company s Corporate Governance Policies set forth a process by which shareholders and other interested third parties can send communications to the non-management members of the Board of Directors. When interested third parties have concerns, they may make them known to the non-management directors by communicating via written correspondence sent by U.S. mail attention Lead Director at the Company s Richmond, Virginia address. All such correspondence is provided to the Lead Director at, or prior to, the next executive session held at a regular Board meeting.

COMPENSATION DISCUSSION AND ANALYSIS

Compensation Philosophy and Objectives

The Company s executive compensation program is designed to incent and reward executives to contribute to the achievement of the Company s business objectives, and to attract, retain and motivate talented executives to perform at the highest level and contribute significantly to the Company s success. The program is intended to align the interests of the Company s executive officers, including the executive officers named in the Summary Compensation Table (the named executive officers), with those of its shareholders by delivering a significant proportion of total compensation that is dependent upon the Company s performance and increased shareholder value.

The Company is a global leader in security services and operates two businesses: Brink s, Incorporated (Brink s) and Brink s Home Security (BHS). Brink s is the world s premier provider of secure transportation and cash management services. BHS is one of the largest and most successful residential alarm companies in North America.

The Company has encountered and will continue to encounter short-term and long-term opportunities and challenges, including competition from other companies in the industries in which it competes, the extension of the Company s brands into new markets and the pursuit of operating efficiencies. The Company believes that the named executive officers compensation packages support the Company s short-term and long-term goals by providing the Company s named executive officers an appropriate mix of compensation elements that effectively balance short-term incentives that reward executives for current performance and the achievement of near-term goals with long- term incentives that reward executives for financial performance over a sustained period and strengthen mutuality of interests between the named executive officers and shareholders.

2007 Executive Compensation Developments

During 2007, the Compensation Committee, after input from committee members and consideration of changes to the Company s executive compensation program suggested by the Cook firm decided to make the following changes to the Company s executive compensation program.

The Compensation Committee resolved to apply a dollar-based approach for determining levels of long-term equity incentive compensation, as opposed to an approach based on a given number of shares, commencing with long-term incentive compensation awards in 2008. The Compensation Committee believes that a dollar-based approach is more appropriate and reflects the current practice of the companies in the peer group (as defined below). The Compensation Committee also believes that the use of a dollar-based approach will result in total long-term incentive compensation opportunities for the named executive officers that are closer to the targeted range.

The Compensation Committee recommended, and the Board of Directors approved, the amendment of the historical definition of change in control to provide that a change in control will be triggered upon consummation of (not shareholder approval of) a merger or other combination transaction on a prospective basis under each of the Company s Management Performance Improvement Plan, 2005 Equity Incentive Plan and Key Employees Deferred Compensation Program. The Company s Pension-Retirement Plan and Pension Equalization Plan and certain non-employee director compensation programs have also been amended to revise the change in control definition in the same manner.

In an effort to further strengthen the mutuality of interests between the Company s named executive officers and shareholders, the Compensation Committee recommended, and the Board of Directors adopted, stock ownership guidelines for the Company s named executive officers. See Benefits Stock Ownership Guidelines on page 22.

In connection with its annual review of the Company s change in control agreements with the named executive officers, the Compensation Committee resolved to implement certain changes consistent with evolving market norms upon the scheduled expiration of the current change in control agreements, including reducing the amounts payable under the agreements and amending the tax gross-up provisions.

Executive Compensation Program Overview

Each named executive officer s compensation package comprises six elements. A description of these six elements, and their function within the total compensation program, is shown below:

Element	Description	Function
Base salary	Fixed compensation	Provides basic compensation at a level consistent with competitive practices; reflects role, responsibilities, skills, experience and performance; encourages retention

Annual bonus awards	Key Employees Incentive Plan (KEIP): Discretionary amount payable annually in cash	Motivates and rewards for achievement of annual Company, unit and individual goals

Element	Description	Function
Long-term incentives	Management Performance Improvement Plan (MPIP): Performance based cash incentive, based on achievement of financial performance goals over a three-year period; award targets and goals set annually by the Compensation Committee	Encourages executives to increase shareholder value by focusing on profitable growth as well as other financial indicators that are likely to increase the Company s stock price
	2005 Equity Incentive Plan: Equity awards, including options, stock appreciation rights, restricted stock, performance stock, other stock-based awards or any combination thereof, may be granted at the Compensation Committee s discretion	Motivates and rewards for financial performance over a sustained period; strengthens mutuality of interests between executives and shareholders; increases retention; rewards stock price performance
Special cash bonuses	Discretionary cash bonus awarded in extraordinary and very limited circumstances	Rewards exemplary performance of major projects or tasks beneficial to the Company
Benefits	Deferred compensation and other benefits: Generally non- performance-based, although the value of deferred compensation is tied to stock price; Company matching contributions on amounts deferred; 401(k); frozen defined benefit pension	Provides for current and future needs of the executives and their families; aids in recruitment and retention; strengthens mutuality of interests between executives and shareholders
Contractual and severance arrangements	Severance plan, employment contract and change in control plan: Contingent amounts payable only if employment is terminated under certain conditions	Provides employment continuity; encourages the objective evaluation of potential changes to the Company s strategy and structure

Process for Setting Executive Compensation

The Compensation Committee is responsible for establishing and reviewing policies governing salaries and benefits, annual performance awards, incentive compensation, special cash bonuses and the terms and conditions of employment for the Company s Chief Executive Officer (CEO) and each of the other named executive officers. The Compensation Committee is also responsible for ensuring that named executive officers of the Company are compensated in a manner consistent with these policies. The Company s Board of Directors approves salary and annual performance awards for the CEO, based on the recommendations of the Compensation Committee.

In performing its responsibilities with respect to executive compensation decisions, the Compensation Committee receives information and support from the Company s Human Resources Department, the Company s executive compensation consultant and the Compensation Committee s executive compensation consultant. For 2007, Towers Perrin served as compensation consultant to

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the Company and the Cook firm served as compensation consultant to the Compensation Committee.

Towers Perrin (1) analyzed competitive levels of each element of compensation for each of the named executive officers, (2) provided information regarding executive compensation trends and (3) advised the Compensation Committee regarding modifications to the Company s executive compensation program to assist the Company in meeting its executive compensation goals. Towers Perrin prepared a detailed report and analysis that was reviewed by and served as guidance for the Compensation Committee in establishing the compensation of the named executive officers for 2007.

The Cook firm (1) conducted a review of the Company s executive compensation program, including an analysis of compensation levels for each of the named executive officers, and (2) recommended changes, some of which are discussed under 2007 Executive Compensation Developments above. The Cook firm prepared a detailed report that reviewed trends in executive compensation. The report also contained a competitive review of compensation levels for each of the named executive officers and a specific review of each of the components of the Company s executive compensation program.

Factors Considered in Determining Executive Compensation

The Compensation Committee annually reviews the total compensation, including the components, of each named executive officer by reviewing various relevant compensation reports prepared by the Company s Chief Administrative Officer and, as described above, the compensation consultants. These reports include competitive pay practices, the value of all Company compensation paid, including base salary, annual and long-term incentive compensation, Company matching contributions on deferred compensation, outstanding equity awards, benefits, perquisites and potential payments under various termination scenarios. The Compensation Committee also reviews tally sheets, the purpose of which is to provide a framework for the Compensation Committee to determine whether the Company s executive compensation program is in line with current competitive practices. The Compensation Committee also reviews the CEO s evaluation of the performance of the other named executive officers as well as his recommendations related to compensation for the other named executive officers. The Compensation Committee approves any adjustments to compensation based on an evaluation of each executive s individual performance and the competitive compensation market. With respect to the CEO, the Compensation Committee reviews the CEO s performance evaluation conducted by the Board of Directors, as well as performance relative to pre-determined annual objectives.

The Compensation Committee considers a variety of factors in coming to decisions regarding compensation for the named executive officers. Competitive market information is an important consideration, but not the only one.

Market competitiveness. The Compensation Committee periodically reviews and relies upon competitive market information and reports on executive compensation practices from Towers Perrin regarding competitive pay levels and compensation structures. In setting compensation levels for the named executive officers and other executives, the Compensation Committee aims to provide target compensation in the aggregate, and generally for each element that is competitive, and therefore approximates the 50th percentile (or the market median) for comparable positions at companies of similar size, or with data adjusted to account for differences in revenues, included in the market comparisons conducted by Towers Perrin (the peer group). Individual compensation may be more or less than the median compensation amount when warranted by individual or corporate performance. Because of the variability inherent in market data and adjustments required in applying such data to the Company s executive compensation program, based on the advice of Towers Perrin, the Compensation Committee considers compensation that is within 15% above or below the median to be statistically within a competitive range of the market median.

The Company s executive compensation policies are applied in the same manner to all of the named executive officers. The comparison to the market median is done on a position by position basis and takes into account the relative responsibilities and authority of each named executive officer. The differences in amounts of compensation for each named executive officer reflect the

significant differences in the scope of responsibilities and authority attributed to their respective positions.

For 2007, the peer group consisted of 105 services industry companies of a similar size in terms of revenues to the Company. Towers Perrin assumed Company revenue of $3 billion for purposes of compiling the peer group (as compared to reported revenues of $3.2 billion from continuing operations for the year ended December 31, 2007, for the Company). In reviewing the peer group information and making 2007 executive compensation decisions, the Compensation Committee considered that the Company has and is continuing to transform from a large conglomerate into a smaller, more focused security company with revenues more comparable to the companies in the peer group. A complete list of the peer group companies is set forth on Annex A to this proxy statement. The peer group data contained in the market comparisons was based on 2006 information as adjusted by Towers Perrin through July 2007.

The following table sets forth the total compensation competitive market information reviewed by the Compensation Committee. For purposes of the table below, total compensation includes base salary as of December 31, 2007, 2007 KEIP bonus payments, 2007 2009 MPIP target awards and 2007 stock option awards.

Name	**2007 Median Total Compensation(a)(b)**	**2007 Actual Total Compensation(b)**	**2007 Actual Total Compensation as a Percentage of 2007 Median Total Compensation**
Michael T. Dan President, Chief Executive Officer and Chairman of the Board	$ 4,575,000	$ 5,269,000	115 %
Robert T. Ritter Vice President and Chief Financial Officer	1,635,000	1,812,000	111
Frank T. Lennon Vice President and Chief Administrative Officer	1,220,000	1,445,500	118
Austin F. Reed Vice President, General Counsel and Secretary	1,195,000	1,368,000	114
James B. Hartough Vice President Corporate Finance and Treasurer	520,000	974,000	187

(a) Determined using 2006 peer group information adjusted by Towers Perrin through July

2007.

(b) Value of stock option awards included in total 2007 compensation calculated using assumptions from company averages for financial reporting process.

Many of the Compensation Committee s 2007 executive compensation decisions, including base salary and long-term incentive opportunities, took into account the Company s 2006 financial results and other accomplishments achieved under the leadership of the named executive officers. For the year ended December 31, 2006, the Company recorded strong overall Company results. Full- year 2006 revenue from continuing operations was $2.8 billion, up 11% from $2.5 billion in 2005. Full-year operating profit from continuing operations was $209.5 million, up 70% from $123.0 million in 2005. Income from continuing operations was $113.1 million, or $2.24 per share, in 2006 versus $51.0 million, or 89 cents per share, in 2005. In addition, the Company completed the sale of its last non-core business at a price above external expectations generating approximately $1 billion in after-tax proceeds. By completing this sale, the Company has transformed itself from a holding company with interests in coal and natural resources, a heavy weight freight business and its two securities businesses to an operating company with its two security businesses. The Company also returned more than $630 million to shareholders by repurchasing 21% of the Company s outstanding shares, contributed $225 million to the Company s VEBA to reinforce that buffer against the Company s legacy liabilities, increased the Company s dividend and reduced debt levels.

As more fully discussed below under Executive Compensation Program Components Annual Bonus Awards 2007 Payouts , the Compensation Committee also considered the Company s financial results and other accomplishments achieved under the leadership of the named executive officers when making decisions regarding 2007 KEIP bonuses.

As reflected in the table above, Mr. Hartough s 2007 total compensation exceeded the range of competitive market information. The scope of Mr. Hartough s responsibilities and authority exceeds the responsibilities and authority typically attributed to the position of treasurer. As a result, competitive market information for Mr. Hartough is not, in the view of the Compensation Committee, reflective of Mr. Hartough s levels of responsibility and authority. In making compensation decisions regarding Mr. Hartough, the Compensation Committee gave weight to the scope of his additional responsibilities and authority, including the active leadership role he has had and continues to have in the Company s acquisitions, dispositions and strategic planning. As noted under Executive Compensation Program Components Long-Term Incentive Compensation , the primary factor contributing to Mr. Hartough s 2007 total compensation exceeding the range of competitive market information was the amount of long-term incentive compensation that he was awarded in 2007, which the Compensation Committee recognized appropriately reflected the long-term nature of his additional responsibilities and authority.

Mr. Lennon s 2007 total annual compensation also slightly exceeded the range of competitive market information. As noted under Executive Compensation Program Components Annual Bonus Awards 2007 Payouts and Long-Term Incentive Compensation , the factors contributing to Mr. Lennon s 2007 total compensation exceeding the range of competitive market information were the amount of his 2007 KEIP bonus and the amount of long-term incentive compensation that he was awarded in 2007.

The Compensation Committee believes that the transition from an approach based on a given number of shares for determining levels of long-term equity incentive compensation to the use of a dollar-based approach in 2008 will result in total compensation for the named executive officers that is closer to the midpoint of the competitive market information.

In light of the Company s 2006 and 2007 financial results and other accomplishments, the Compensation Committee believed that the amounts of 2007 total compensation for the named executive officers were appropriate.

The Compensation Committee considers a variety of factors in coming to decisions regarding compensation for the named executive officers in addition to competitive market information. The other main factors include:

Performance. The Company s policy is to provide its executive officers with compensation opportunities that are based upon their individual performance, the performance of the Company and their contribution to that performance. The Compensation Committee considers these performance factors when approving adjustments to the compensation of the named executive officers.

Mix of current and long-term compensation. Because the successful operation of the Company s business requires a long-term approach, an emphasis of the program is on long-term compensation by means of long-term incentives. The Compensation Committee believes that this emphasis on long-term compensation aligns the named executive officers interests with the economic interests of the Company s shareholders and also reflects the Company s business model.

Impact and mix of cash vs. non-cash compensation. The Compensation Committee considers both the cost and the motivational value of the various components of compensation. The Compensation Committee has determined that current compensation base salary and annual bonuses should be delivered in cash, but that long-term incentive compensation should include a combination of long-term cash incentives and stock-based compensation so that the long-term financial rewards available to the named executive officers are linked to increases in the Company s

value over the long-term. The Compensation Committee believes that this also aligns the named executive officers interests with the economic interests of the Company s shareholders.

Amount of accumulated or prior year s compensation. It is the Compensation Committee s view that a named executive officer s annual compensation, including long-term incentives, should reflect his current and expected future performance and the executive s contribution to the Company s current and expected future performance. While the Compensation Committee reviews accumulated or outstanding compensation, there is not a direct relationship between the amounts of realizable or potentially realizable payments and the decisions regarding pay in the current year.

Executive Compensation Program Components

The Company s executive compensation program for its named executive officers consists of the following elements:

Base Salary

For 2007, the Compensation Committee considered the following factors in making base salary decisions for each named executive officer:

- the market median base salary for comparable positions in companies in the peer group;
- the importance of the particular position to the Company;
- the difficulty in replacing the executive;
- the executive s individual performance;
- internal alignment considerations;
- inflation; and
- the median total compensation for companies

in the peer group.

The relative weight given to each factor varied with each position and individual and was within the sole discretion of the Compensation Committee. Decisions regarding the individual performance factor identified above and used by the Compensation Committee in making base salary decisions for each named executive officer, other than the CEO, were based on the Compensation Committee s review of the CEO s evaluation of the officer s individual performance for the prior year, as well as his recommended salary adjustments. Decisions regarding the individual performance factor identified above and used in making base salary decisions for the CEO were based on the Board of Directors review of the CEO s individual performance for the prior year.

The following table sets forth the competitive market information reviewed by the Compensation Committee in setting 2007 base salaries for each of the named executive officers, 2007 base salaries and the percentage increase in 2007 base salaries versus 2006 base salaries:

Name	2007 Median Base Salary(a)	Annual Base Salary Rate as of December 31, 2007	Increase Compared to 2006 Base Salary (%)	2007 Compensation Ratio(b)
Mr. Dan	$ 915,000	$ 1,075,000	4.0 %	117 %
Mr. Ritter	470,000	482,000	4.0	103
Mr. Lennon	395,000	397,500	6.0	101
Mr. Reed	390,000	395,000	3.9	101
Mr. Hartough	235,000	270,000	3.8	115

(a) Determined using 2006 peer group information adjusted by Towers Perrin through July 2007.

(b) Percentage of the median base salary for each named executive officer as compared to the peer group.

With respect to the base salary increases for each of the named executive officers, the Compensation Committee noted (1) each named executive officer s base salary, as adjusted for the 2007 base salary increases, fell within or very close to the competitive range of the market median for median base salaries, (2) such increases were in-line with the market trend of 2007 base salary increases for executive officers in the United States, (3) each named executive officer s individual performance, (4) the Company s financial results and other accomplishments achieved in 2006 under the leadership of the named executive officers and (5) such increases were consistent with base salary increases within the rest of the Company.

Annual Bonus Awards

The Key Employees Incentive Plan (the KEIP) is designed to provide financial incentive for the Company s named executive officers because the Company believes their performance in fulfilling the responsibilities of their positions can significantly affect the profitable growth and future prospects of the Company. The KEIP provides an opportunity for the named executive officers to earn additional annual cash compensation based upon the following three performance factors:

- the named executive officer s individual performance;

- the results achieved by the Company, including revenue and operating profit levels, cash flow, earnings per share, safety and security results and other quantitative and nonquantitative measurements; and

- the results achieved by the named executive officer s unit or department.

The CEO s annual cash compensation under the KEIP is based upon the first two factors only.

All annual incentive payments are discretionary, with the Compensation Committee recommending to the Board of Directors bonuses for the CEO and establishing bonuses for the other named executive officers after reviewing the recommendations of the CEO.

2007 Target Award Opportunities. The Compensation Committee assigns the named executive officers a competitive incentive target for each year under the KEIP. The target incentive is expressed as a percent of the participant s annual base salary as of the end of the year and is designed by the Compensation Committee to be indicative of the incentive payment that each participant would expect to receive on the basis of strong performance by the individual, the

Company and, in the case of the named executive officers other than the CEO, the named executive officer s unit or department. After reviewing competitive market information, the Compensation Committee set 2007 target incentives for each of the named executive officers at or near the 50th percentile of the peer group. The following table sets forth the competitive market information reviewed by the Compensation Committee in setting 2007 KEIP incentive targets for each of the named executive officers:

Name	2007 Median Target Annual Bonus(a)	2007 Target KEIP Bonus	2007 Target KEIP Bonus as a Percentage of 2007 Median Target Annual Bonus
Mr. Dan	$ 915,000	$ 1,075,000	117 %
Mr. Ritter	300,000	313,300	104
Mr. Lennon	230,000	218,625	95
Mr. Reed	225,000	217,250	97
Mr. Hartough	100,000	121,500	122

(a) Determined using 2006 peer group information adjusted by Towers Perrin through July 2007.

Although the Compensation Committee set 2007 KEIP target incentives for each of the named executive officers at or near the 50th percentile of the peer group, the 2007 target bonus amounts for Messrs. Dan and Hartough, when compared against median target annual bonus amounts for the peer group, exceeded the 50th percentile. This results from the fact that the 2007 base salaries for Messrs. Dan and Hartough slightly exceeded or were at the high end of the competitive range around the market median for base salaries.

Actual payments under the KEIP could have ranged from 0% to 200% of each named executive officer s target incentive award based on the results of the performance factors described above, applied and considered at the discretion of the Compensation Committee.

2007 Payouts. For purposes of awarding actual payments under the KEIP in 2007 for each of the named executive officers, the Compensation Committee generally reviewed target payouts that gave individual performance a weight factor of 50%, and each of unit or department and Company performance weight factors of 25%. In the case of the CEO, individual performance and Company performance were each weighted 50%.

In determining actual 2007 KEIP bonuses, the Compensation Committee gave significant weight to the achievement in 2007 of (1) overall Company results, including 2007 revenues of $3.2 billion from continuing operations, an increase of 15% compared with 2006 revenues, and 2007 earnings per share of $3.16, an increase of 41% compared with 2006 earnings per share, and (2) unit and department results that met performance expectations. The Compensation Committee noted that these achievements occurred under the leadership of the named executive officers who positioned the Company for these 2007 results and future growth by selling the Company s former coal business and by selling BAX Global, the proceeds of which were used to reduce the Company s debt levels and fund the VEBA and a substantial stock buy-back. The Compensation Committee recognized that all of the named executive officers contributed significantly to these achievements and used these achievements as indicators of individual performance.

The Compensation Committee also recognized the following other significant individual contributions by the named executive officers: (1) reviewing and assessing the Company s strategic alternatives; (2) addressing concerns and issues presented by the Company s shareholders related to the Company s strategic alternatives; (3) refining and improving the Company s pension plan structure; and (4) providing value-added services to the business units.

Based on the foregoing factors and after exercising the discretion referred to above, the Compensation Committee awarded the named executive officers the 2007 annual KEIP bonuses set forth in the table below:

Name	2007 Actual KEIP Bonus
Mr. Dan	$ 1,475,000
Mr. Ritter	425,000
Mr. Lennon	275,000
Mr. Reed	200,000
Mr. Hartough	145,000

Long-Term Incentive Compensation

For 2007, the Compensation Committee reviewed and considered competitive market information at or near the 50th percentile of the peer group, but, as discussed below, established combined long-term incentive compensation opportunities (MPIP target bonus and stock option award) higher than the 50th percentile for certain of the named executive officers. The Compensation Committee considered the following factors in determining the amount of long-term incentive compensation opportunities awarded to each named executive officer in 2007:

- peer group median long-term incentive amounts;

- the executive s performance;

- the executive s potential future contributions to the Company;
- the current compensation of the executive;
- the importance of the executive to the Company over the long term, and the executive s performance relative to his or her peers within the Company;
- retention issues and concerns; and
- the median total compensation for companies in the peer group.

The following table sets forth the competitive market information reviewed by the Compensation Committee in setting 2007 combined long-term incentive opportunities for each of the named executive officers:

Name	2007 Median Total Long-Term Incentive Compensation(a)(b)	Total 2007 Long-Term Incentive Compensation(b)(c)	Total 2007 Long-Term Incentive Compensation as a Percentage of Median Total Long-Term Incentive Compensation
Mr. Dan	$ 2,745,000	$ 2,719,000	99 %
Mr. Ritter	865,000	905,000	105
Mr. Lennon	595,000	773,000	130
Mr. Reed	580,000	773,000	133
Mr. Hartough	185,000	559,000	302

(a) Determined using 2006 peer group information adjusted by Towers Perrin through July 2007.

(b) Value of stock option awards included in total 2007 long-term incentive compensation calculated using assumptions from company averages for financial reporting process.

(c) Total 2007 long-term

incentive compensation is composed of 2007 2009 MPIP target bonus and stock option award granted in 2007.

Historically and in 2007, the Compensation Committee used an approach based on a given number of shares for determining levels of total long-term equity incentive compensation. This approach has been a contributing factor in total long-term incentive compensation for certain of the named executive officers exceeding the targeted range. For long-term incentive compensation awards in 2008, the Compensation Committee has resolved to apply a dollar-based approach for determining levels of long-term incentive compensation, particularly with respect to the option component of long-term incentive compensation. The Compensation Committee believes that a dollar-based approach is more appropriate than an approach based on a given number of shares and reflects the current practice of most of the companies in the peer group. The Compensation Committee also believes that the use of a dollar-based approach will result in total long-term incentive compensation for the named executive officers that is closer to the targeted range.

With respect to the 2007 long-term incentive compensation opportunities for each of the named executive officers, the Compensation Committee noted:

that total 2007 long-term incentive compensation was within the competitive range of the peer group median total long-term incentive compensation for each of Messrs. Dan and Ritter;

the strong potential of each named executive officer and his long-term importance to the Company;

the Company s strong desire

to retain each of the named executive officers, particularly in light of the recent shareholder activism involving the Company; and

that total 2007 compensation was within or slightly exceeded the competitive range of the median peer group total 2007 compensation for each of Messrs. Dan, Ritter, Lennon and Reed.

The Compensation Committee concluded that the median competitive market information for long-term incentive compensation was not properly reflective of the value added by Messrs. Lennon, Reed and Hartough. As a result, the Compensation Committee placed greater weight on these named executive officers long-term importance to the Company and the Company s desire to retain each of them. In particular, competitive market information for Mr. Hartough is not, in the view of the Compensation Committee, reflective of Mr. Hartough s levels of responsibility and authority. In addition, the Compensation Committee recognized that, while it sets compensation of the named executive officers on an officer-by-officer basis, the named executive officers operate as a team. As a result, the Compensation Committee generally sought to provide more commensurate total long-term incentive opportunities for 2007.

The components of long-term incentive compensation include the following:

Management Performance Improvement Plan. The Management Performance Improvement Plan (the MPIP) is an incentive compensation plan that the Company believes promotes the financial interests of the Company and its shareholders by linking the long-term financial incentives of the named executive officers to improvement in the Company s financial performance. At the beginning of each three-year performance measurement period, the Compensation Committee sets award targets that are tied to initial performance goals for the named executive officers under the MPIP. The initial performance goals serve as the minimum performance goals for the full three-year performance measurement period. At the beginning of each fiscal year after the initial year in the applicable three-year performance measurement period, the Compensation Committee reviews the Company s actual annual results against the performance goals established for the immediately preceding year. Based on this review, the Compensation Committee, in its sole discretion, may increase (but not reduce) the performance goals for the next year in the three-year performance measurement period. Cash awards to the named executive officers at the end of the three-year measurement period may range from 0% to 200% of the target award amount, depending upon the aggregated three-year actual performance against the pre-established performance goals.

Because awards are earned at the end of three-year performance measurement periods, there are three overlapping measurement periods in effect at any one time. In addition, because the Compensation Committee annually sets initial performance goals for the named executive officers at the beginning of each three-year performance measurement period and reviews performance goals established for the immediately preceding year in the previously established three-year performance measurement periods, the adoption of the initial performance goals, to the extent that they are more difficult to attain than the performance measures for previously established three-year performance measurement periods, effectively raises the performance goals used in evaluating the previously established three-year performance measurement periods.

The Company believes that the three-year performance measurement period provides an appropriate incentive to the named executive officers to focus on the Company s long-term goals and performance. The Company also believes that the annual review of the previously established performance goals is an important component of the MPIP as it allows the Compensation Committee to raise the bar to account for increased expectations, such as focused internal growth, and out of the ordinary events or transactions, such as acquisition activity, that may occur during a three-year performance measurement period. This ability is especially important given the Company s ongoing transition from a holding company to an operating company. Since the adoption of the MPIP, the Compensation Committee has exercised this discretion to increase previously established performance goals every year.

Because the MPIP is designed to be a tax qualified plan under Internal Revenue Code Section 162(m), payouts are determined solely by actual quantifiable performance against the preset numerical goals. The Compensation Committee generally does not have the discretion to adjust payouts based on subjective assessments. Provided that no change in control of the Company has occurred, the Compensation Committee, however, may reduce (but not increase) any payout to a participant who is an employee of the Company, which includes all of the named executive officers.

For the three-year performance measurement period beginning in 2007, the Compensation Committee established the initial performance goals based on increases in (1) revenue, operating profit and economic value added (EVA) in each of Brink s and BHS and (2) the Company s earnings per share (EPS). The following table summarizes the initial performance goals for the three-year performance measurement period beginning in 2007 and the relative weighting given to each of the performance goals:

Performance Improvement Goals, Weighting and Initial Improvement Goals

Improvement Goal			Weighting		Initial Improvement Goal (in millions, except EPS)
1.	EPS*	1.	33.4 %	1.	$ 2.40
2.	Brink s revenue	2.	6.67	2.	168.0
3.	Brink s operating profit	3.	16.67	3.	14.8
4.	Brink s EVA	4.	9.99	4.	2.0
5.	BHS revenue	5.	6.67	5.	53.0
6.	BHS operating profit	6.	16.67	6.	10.1 **
7.	BHS EVA	7.	9.99	7.	1.0

* The EPS Goal is the actual total EPS target for 2007, not the amount of improvement from 2006.

** Excludes Hurricane Katrina insurance proceeds.

The specific goals and initial performance goals selected by the Compensation Committee for the three-year measurement period beginning in 2007 were selected because they represent the financial growth drivers for each of the operating companies that the Committee believed would lead to the achievement of increased shareholder value.

Performance award targets for the 2007 2009 performance measurement period for each named executive officer are set forth in the table below:

Name	Threshold	Target	Maximum
Mr. Dan	$ 0	$ 1,000,000	$ 2,000,000
Mr. Ritter	0	250,000	500,000

Mr. Lennon	0	200,000	400,000
Mr. Reed	0	200,000	400,000
Mr. Hartough	0	150,000	300,000

Awards to the named executive officers at the end of the three-year performance measurement period may range from 0% to 200% of the target award amount, depending upon the aggregated three-year actual performance against the pre-established criteria.

The adoption of the performance award targets for the three-year performance measurement period also effectively amended the measures used in evaluating the three-year performance measurement ending in 2007 and 2008.

The following table summarizes the performance goals for the three-year performance measurement period that ended on December 31, 2007, the relative weighting given to each of the performance goals and the actual results achieved:

Performance Improvement Goals, Weighting, Three-Year Improvement Goal and Actual Results

	Improvement Goal		Weighting		Three-Year Improvement Goal (in millions, except EPS)		Actual Result (% of Three-Year Improvement Goal Attained)
1.	EPS*	1.	30.6 %	1.	$ 6.29	1.	105.9 %
2.	Brink s revenue	2.	6.12	2.	499.0	2.	166.5
3.	Brink s operating profit	3.	15.3	3.	77.8	3.	85.1
4.	Brink s EVA	4.	9.18	4.	25.8	4.	45.0
5.	BHS revenue	5.	6.12	5.	144.0	5.	96.3
6.	BHS operating profit	6.	15.3	6.	28.9	6.	108.0
7.	BHS EVA	7.	9.18	7.	3.7	7.	110.8
8.	BAX revenue	8.	1.64	8.	187.0	8.	247.4
9.	BAX operating profit	9.	4.10	9.	23.8	9.	131.9
10.	BAX EVA	10.	2.46	10.	18.3	10.	114.8

* The EPS Goal is the cumulative total of the EPS target for each of the three years, not the cumulative amount of improvement from the prior years.

Based on the foregoing, the named executive officers earned the cash bonuses set forth in the table below:

Name	2007 MPIP Bonus
Mr. Dan	$ 1,121,000
Mr. Ritter	280,250
Mr. Lennon	224,200

Mr. Reed	224,200
Mr. Hartough	168,150

2005 Equity Incentive Plan. The Compensation Committee uses stock options as an important part of the long-term incentive compensation program and believes options continue to be an effective way to link a named executive officer s compensation to the performance of the Company. Awards under the 2005 Equity Incentive Plan (the 2005 Equity Plan) are intended by the Company to encourage each of the named executive officers to continue in the employ of the Company, to enhance their incentive to perform at the highest level, and in general, to further the best interests of the Company and its shareholders.

Stock options are granted on the day they are approved by the Compensation Committee at its July meeting and are priced at 100% of fair market value on the date of grant, which under the 2005 Equity Plan is based on the average of the high and low per share quoted sale prices of Brink s Common Stock on the date of the grant as reported on the New York Stock Exchange Composite Transaction Tape.

Only the Compensation Committee, under authority granted to it by the Board of Directors, may grant stock options under the 2005 Equity Plan. Named executive officers benefit from stock option grants only to the extent the stock price of Brink s Common Stock appreciates above the exercise price of the stock options. In addition, because of the vesting requirements, the Compensation Committee believes that providing the named executive officers compensation in the form of stock options allows it to focus on their retention while encouraging them to take a longer- term view in their decisions impacting the Company.

The Compensation Committee determines the number of stock options to be granted to each named executive officer based on competitive practices and individual performance, considered in the context of the overall long-term incentive compensation philosophy. The Compensation Committee takes into account all target award amounts provided to the named executive officer under the MPIP when granting options, as well as the importance to the Company of the individual s position, the individual s overall contribution to the Company s performance, and the individual s expected contribution to future performance.

For 2007, the Compensation Committee considered the following factors in determining the size of each stock option grant awarded to each named executive officer:

- the peer group median long-term incentive compensation amounts;
- the executive s past performance;
- the executive s potential future contributions to the Company;
- the current compensation of the executive;
- retention issues and concerns;
- the cost of the awards to the Company;
- the value of the awards to the executive; and
- the importance of the executive to the

Company
over the long
term.

Based on the foregoing, the named executive officers received the number of stock options set forth in the table below:

Name	2007 Option Awards (Shares)
Mr. Dan	105,000
Mr. Ritter	40,000
Mr. Lennon	35,000
Mr. Reed	35,000
Mr. Hartough	25,000

1988 Stock Option Plan. None of the named executive officers received compensation under the 1988 Stock Option Plan in 2007, but previously granted options from this plan remain outstanding.

Special Cash Bonuses

For 2007, the Compensation Committee did not award special cash bonuses to any of the named executive officers. The Compensation Committee has provided certain of its named executive officers with cash bonuses in extraordinary and very limited circumstances in the past to reward exemplary performance of major projects or tasks beneficial to the Company. The cash bonuses were discretionary and separate from any bonuses for which a named executive officer may have been eligible under the KEIP or the MPIP.

Benefits

The types and amounts of benefits are also established based upon an assessment of competitive market factors and a determination of what is needed to aid in attracting and retaining talent, as well as providing long-term financial security to the Company s employees and their families. All benefits are reviewed at least annually by the Compensation Committee, which evaluates benefit levels based on competitive influences, as well as the cost of the programs to the Company relative to their value to employees. The plans are also reviewed for changes that may be required due to new laws and regulations or significant changes in market conditions. The Company s primary benefits for the named executive officers include participation in the plans or arrangements listed below.

Deferred Compensation. The Company maintains a deferred compensation program, the Key Employees Deferred Compensation Program, for certain of its most highly compensated employees, including all of the named executive officers. The deferred compensation program provides an opportunity for the participants to defer receipt of up to 100% of any annual KEIP or MPIP awards, up to 50% of base salary and amounts that are prevented from being contributed to the Company s 401(k) Plan (up to 5% of compensation) as a result of limitations imposed by the Internal Revenue Code (supplemental savings). The Company matches 100% of the first 10% of salary deferred and 100% of the first 10% of the gross amount of any KEIP award deferred by the participant. The Company also matches 125% of supplemental savings; the same match that is provided on 401(k) Plan contributions. There is no Company match on MPIP deferrals. Amounts deferred under the deferred compensation program are converted into common stock units that represent an equivalent number of shares of Brink s Common Stock.

Because the value of a named executive officer s deferred compensation account is tied to the value of Brink s Common Stock, the Compensation Committee believes that the deferred compensation program serves to strengthen the mutuality of interests between the named executive officers and shareholders. By placing a portion of the named executive officer s compensation at risk by tying it the value of Brink s Common Stock, the named executive officers are encouraged to increase shareholder value by focusing on profitable growth as well as other financial indicators that are likely to increase the Company s stock price. The Compensation Committee also believes that the deferred compensation program furthers the Company s goal of retaining the named executive officers, in part, because it permits the named executive officer to use tax deferrals to build a supplemental retirement benefit. The Compensation Committee reviews each named executive officer s account under the deferred compensation program annually in November and also when the Company s proxy statement is prepared following year-end.

The Compensation Committee conducted a special review of the deferred compensation program in 2007 in light of the changes to the program that are required for compliance with Section 409A of the Internal Revenue Code, which applies to deferred compensation arrangements. Because of changes made to the program in response to Section 409A, and because of certain transitional relief available under Section 409A that expires on December 31, 2008, the Compensation Committee determined that it was appropriate to allow each participant to elect to receive a distribution of the vested portion of his or her account under the program; provided that distributions would only be permitted to the extent that they were tax deductible by the Company under Section 162(m) of the Internal Revenue Code. Accordingly, participants who elected by December 31, 2007 to receive a distribution of the vested portion of his or her account under the program received his or her distribution on February 15, 2008 in the form of Brink s Common Stock, subject to the Section 162(m) limitation. Any undistributed portion of a participant s account remains credited to his or her account under the program.

For more information on the Company s deferred compensation program, see Nonqualified Deferred Compensation beginning on page 34.

Pension Plans. The Company maintains a noncontributory defined benefit pension-retirement plan covering the named executive officers along with all other U.S. employees who met plan eligibility requirements and were employed before December 31, 2005. Because the Internal Revenue Code limits the amount of pension benefits that may be paid under federal income tax qualified plans, the Company maintains a pension equalization plan under which the Company makes additional payments so that the total benefit to be received by the executive is the same as it would have been if there were no Internal Revenue Code limitations. Effective December 31, 2005, the Company froze the accrual of benefits under both the pension plan and the equalization plan. For more information on the Company s pension plan and equalization plan, see Pension Benefits beginning on page 31.

Executive Life Insurance Plan. The Company provides executives in the Company, including the named executive officers, with life insurance benefits. All premiums paid by the Company are fully taxable to the participant. The life insurance policies are owned by the individual executives.

Executive Salary Continuation Plan. The named executive officers participate along with other executives in the Company s Executive Salary Continuation Plan, which, in the event a participant dies for any reason while in the employment of the Company, provides that the Company will pay a designated beneficiary a death benefit equal to three times the participant s annual salary in effect on the first of the year coincident with or immediately preceding the date of death. Such benefit is paid out over a 10-year period following the executive s death.

Long-Term Disability Plan. The named executive officers participate along with other executives in a long term disability program. In the event that the executive is totally incapacitated, he would receive 60% of his current annual salary plus the average of the last three years KEIP payments, with a maximum annual payment of $300,000. These payments would continue (as long as the executive is totally disabled) until the executive reaches the social security full retirement age.

Financial and Tax Planning Program. The named executive officers participate in the Company s Financial and Tax Planning Program, which the Company believes enables them to devote to the business activities of the Company the time and attention that would otherwise be devoted to their personal financial and tax affairs, and in the case of the personal tax return preparation and certification aspect of the program, to provide the Company with assurance that the tax affairs of participating executives are properly administered. Under the Financial and Tax Planning Program, subject to a $10,000 calendar year maximum, the Company reimburses the named executive officers for reasonable costs associated with personal financial and tax planning, estate planning and the preparation and filing of their personal tax returns.

Miscellaneous Plans or Arrangements. The Company s named executive officers are also eligible to participate in the Company s health, dental and vision plans, and various insurance plans, including basic life insurance, and the Company s matching charitable gifts program on the same basis as any other U.S. employee.

Stock Ownership Guidelines. On November 15, 2007, the Company adopted stock ownership guidelines for its named executive officers. The guidelines call for the Chief Executive Officer to hold that number of shares of Brink s Common Stock with a value equal to five times salary, and for the other named executive officers to hold that number of shares of Brink s Common Stock with a value equal to three times salary, within five years from the date of election as an officer. Shares of Brink s Common Stock owned outright, deferred stock-based units and shares of vested and unvested restricted stock (but not unexercised stock options) are all eligible to be included for purposes of the guidelines.

Perquisites. The Company provides its named executive officers with perquisites; a detailed listing of perquisites and their value is on page 26.

Contractual and Severance Agreements

Employment Agreements. The Company has entered into an employment agreement with the CEO that is described under Potential Payments upon Termination or Change in Control Employment Agreement with Mr. Dan beginning on page 38. The Compensation Committee believes it is appropriate for the Company to have an employment agreement with the CEO to support stable and highly competent management on a long-term basis.

Change in Control Agreements. The Company initially entered into change in control agreements with certain key members of management in the 1980s. At the time, the Company was facing significant headwinds and the change in control agreements were included as part of the overall compensation program as an additional means of retaining key members of management. In 1997 and 1998, the Company amended and restated the change in control agreements in an effort to conform the agreements to the then current market norms.

The Compensation Committee believes that the agreements serve the interests of the Company and its shareholders by ensuring that if a hostile or friendly change in control is ever under consideration, its executives will be able to advise the Board of Directors about the potential transaction in the best interests of shareholders, without being unduly influenced by personal considerations, such as fear of the economic consequences of losing their jobs as a result of a change in control. The change in control agreements include so-called double triggers, which mean that benefits become available to named executive officers under the agreements only upon a change in control and certain adverse employment developments for the executives such as termination by the

Company without cause or termination by the executive for good reason. The Compensation Committee believes that a double trigger appropriately protects the legitimate interests of the named executive officers in employment security without unduly burdening the Company or shareholder value. The potential payments to each of the named executive officers under the agreements are described below under Potential Payments upon Termination or Change in Control Change in Control Agreements and Severance Agreements beginning on page 39.

The Compensation Committee reviews the agreements, including the potential payments to the named executive officers under the agreements, at least annually. The Compensation Committee, however, does not evaluate any potential payments under these agreements when making decisions regarding annual compensation. The Company has been facing many of the same challenges it faced in the late 1990s, including increased shareholder activism and an evaluation of its strategic alternatives. As a result, each of the agreements was amended in 2007 to extend their original 10- year terms for an additional three years until April 23, 2010. The Compensation Committee decided not to extend the agreements terms for the 10-year period in the original agreements. This decision reflects the Compensation Committee s belief that 10-year change in control agreements are no longer appropriate given changes to the competitive landscape since the agreements initial adoption and provides the Compensation Committee with the opportunity to evaluate the change in control agreements every three years. In addition, each agreement was amended to permit each named executive officer to terminate their employment for any reason, or no reason at all, effective following the first anniversary of a change in control of the Company. In 2007, the Compensation Committee resolved to implement other changes consistent with evolving market norms upon the scheduled expiration of the current change in control agreements, including reducing the amounts payable under the agreements and amending the tax gross-up provisions.

Severance Agreements. In the 1990s, following the relocation of the Company s headquarters to Richmond, Virginia, the Company considered several strategic alternatives, including the sale of one or more of the Company s businesses. Many of these alternatives would not have resulted in a change in control but could have resulted in a significant career altering change for the executive officer. In light of these developments and in connection with the Company s strong desire to retain key members of management, in 1997 and 1998, the Company entered into severance agreements with the named executive officers, other than the CEO, that are described below under Potential Payments upon Termination or Change in Control Change in Control Agreements and Severance Agreements beginning on page 39.

The Compensation Committee reviews the agreements, including the potential payments to the named executive officers under the agreements, at least annually. The Compensation Committee however does not evaluate any potential payments under these agreements when making decisions regarding annual compensation. The Compensation Committee believes that reasonable severance arrangements are an essential aspect of the terms of employment of named executive officers. The Compensation Committee is of the view that its shareholders have benefited from the protection that these agreements provide. The Compensation Committee believes that these agreements provide reasonable compensation arrangements and give the Company a high degree of management stability.

Policies

Options General. The Company has not engaged in backdating options. The Company does not have any program or plan to time option grants in coordination with the release of material non- public information and has never had a practice of doing so. In addition, the Company has never timed and does not plan to time the release of material non-public information for the purpose of affecting the value of executive compensation.

The accounting for all options is compliant with accounting principles generally accepted in the United States and is disclosed in the Company s annual and quarterly financial reports filed with the SEC.

Taxes. Internal Revenue Code Section 162(m) disallows a tax deduction to any publicly held corporation for paid remuneration exceeding $1 million in any taxable year for chief executive officers and certain other executive officers, except for performance-based remuneration. Historically, through the design and implementation of the Company s compensation programs, the Company has sought, and continues to seek, the availability of tax deductibility. This policy, however, is subject to the reservation by the Company of the flexibility to award non-deductible compensation in circumstances wherein the Company believes, in its good faith business judgment, that such an award is in its best interest in attracting or retaining capable management.

Report of Compensation and Benefits Committee

The Compensation and Benefits Committee has reviewed and discussed the Compensation Discussion and Analysis with management and, based on such review and discussions, the Compensation and Benefits Committee has recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement.

Ronald L. Turner, *Chairman*
Roger G. Ackerman
Murray D. Martin
Carl S. Sloane

SUMMARY COMPENSATION TABLE

The following table presents information with respect to total compensation of the Chief Executive Officer, the Chief Financial Officer and the three other most highly compensated executive officers of the Company for the years ended December 31, 2006 and 2007. These officers are referred to in this proxy statement as the named executive officers.

Name and Principal Position	Year	Salary(1) ($)	Bonus(2) ($)	Option Awards(3) ($)	Non-Equity Incentive Plan Compensation(4) ($)	Change i Pension Value and Nonqualifi Deferred Compensati Earnings(5 ($)
Michael T. Dan	2007	$ 1,068,083	$ 1,475,000	$ 2,444,986	$ 1,121,000	$ 21,54
President, Chief Executive Officer and Chairman of the Board	2006	1,027,846	1,350,000	2,854,172	1,341,000	93,84

8,344

Amortization of deferred credits	(81)	(84)
Purchase of trading investments	—	(452)
Net unrealized losses on trading investments	—	146
Deferred income taxes	463	(3,075)
Stock-based compensation	1,082	950
Tax benefit attributable to appreciation of common stock options exercised	(2,857)	(113)
Changes in operating assets and		

liabilities, net of effects from acquisitions:		
Trade receivables	(3,191)	(3,242)
Employee receivables	(88)	7
Other receivables	(204)	(116)
Inventories	(5,960)	(5,313)
Prepaid expenses and other assets	(1,757)	(693)
Income tax refunds receivable	(367)	71
Trade payables	(4,021)	317
Accrued expenses	2,606	2,541
Advances from employees	501	111
Income taxes payable	6,568	2,499
Deferred compensation payable	124	119
Liabilities related to unrecognized tax positions	(823)	(590)
Other long-term assets	(87)	(63)
Other long-term obligations	976	(115)
Total adjustments	10,634	12,371
Net cash provided by operating activities	28,708	20,621

CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures for:		
Property and equipment	(37,086)	(15,592)
Patents and trademarks	(1,768)	(718)
Proceeds from the sale of property and equipment	5	16
Proceeds from sale of marketable securities	—	9,673
Cash paid in acquisitions	(8,250)	(96,226)
Net cash used in investing activities	(47,099)	(102,847)

See condensed notes to consolidated financial statements. (Continued)

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MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010
(In thousands - unaudited)

	Nine Months Ended September 30, 2011	2010
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock	$94,800	$1,351
Borrowings on line of credit	—	1,500
Payments on line of credit	—	(8,500)
Proceeds from issuance of long-term debt	61,507	97,278
Payments on long-term debt	(137,426)	(9,289)
Long-term debt issuance costs	—	(522)
Payment of taxes related to an exchange of common stock	(819)	—
Excess tax benefits from stock-based compensation	2,857	113
Net cash provided by financing activities	20,919	81,931
EFFECT OF EXCHANGE RATES ON CASH	(444)	(540)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,084	(835)
CASH AND CASH EQUIVALENTS:		
Beginning of period	3,735	6,133
End of period	$5,819	$5,298
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION—Cash paid during the period (net of capitalized interest of $264 and $0, respectively):		
Interest	$749	$71
Income taxes	$3,192	$4,447
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Property and equipment purchases in accounts payable	$7,065	$2,077
Accrued purchase price related to acquisitions	$2,208	$500

During the nine months ended September 30, 2011, 50,142 shares of Merit's common stock were surrendered in exchange for Merit's recording of payroll tax liabilities in the amount of approximately $819,000, related to the exercise of stock options. The shares were valued based upon the closing price of Merit's common stock on the surrender date.

During the nine months ended September 30, 2011, 53,000 shares of Merit's common stock, with a value of approximately $913,000, were surrendered in exchange for the exercise of stock options.

See condensed notes to consolidated financial statements. (Concluded)

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MERIT MEDICAL SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED 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, 2011 and 2010 are not audited. Our consolidated financial statements are prepared in accordance with the requirements for unaudited interim periods, and consequently, do not include all disclosures required to be made in conformity with accounting principles generally accepted in the United States of America. 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, 2011, and our results of operations and cash flows for the three and nine-month periods ended September 30, 2011 and 2010. The results of operations for the three and nine-month periods ended September 30, 2011 are not necessarily indicative of the results for a full year. 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, 2010 filed with the Securities and Exchange Commission (the “SEC”).

2. Inventories. Inventories are stated at the lower of cost or market. Inventories at September 30, 2011 and December 31, 2010 consisted of the following (in thousands):

	September 30, 2011	December 31, 2010
Finished goods	$32,498	$30,780
Work-in-process	10,104	7,012
Raw materials	23,955	22,805
Total	$66,557	$60,597

3. Reporting Comprehensive Income. The following table presents comprehensive income for the three and nine-month periods ended September 30, 2011 and 2010 (in thousands):

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Net income	$4,563	$(1,973)	$18,074	$8,250
Interest rate swap, net of tax	(151)	—	(708)	—
Foreign currency translation	(576)	393	(185)	373
Comprehensive income	$3,836	$(1,580)	$17,181	$8,623

As of September 30, 2011, accumulated other comprehensive income consisted solely of foreign currency translation adjustments. As of December 31, 2010, accumulated other comprehensive income included approximately $708,000 (net of tax of $451,000) related to an interest rate swap and $152,000 related to foreign currency translation.

4. Stock-based Compensation. Stock-based compensation expense for the three and nine-month periods ended September 30, 2011 and 2010 has been categorized as follows (in thousands):

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Cost of sales	$69	$53	$158	$149

Research and development	24	13	53	42
Selling, general and administrative	343	278	871	759
Stock-based compensation	$436	$344	$1,082	$950

The excess income tax benefit created from the exercises of stock options was approximately $4,000 and $2.9 million for the three

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and nine-month periods ended September 30, 2011, respectively, as compared to $64,000 and $113,000 for both the three and nine-month periods ended September 30, 2010, respectively. As of September 30, 2011, the total remaining unrecognized compensation cost related to non-vested stock options, net of expected forfeitures, was approximately $6.5 million and is expected to be recognized over a weighted average period of 3.82 years. During the nine-month periods ended September 30, 2011 and 2010, we granted 844,000 and 100,000 stock awards, respectively. We use the Black-Scholes methodology to value the stock-based compensation expense for options. In applying the Black-Scholes methodology to our outstanding option grants, we used the following assumptions:

	Nine Months Ended September 30,	
	2011	2010
Risk-free interest rate	1.34% - .68%	2.24%
Expected option life	4.2 - 6.0	6.0
Expected price volatility	42.11% - 45.29%	41.40%

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

5. Earnings Per Common 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, except per share amounts):

	Three Months			Nine Months		
	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount
Period ended September 30, 2011:						
Basic EPS	$4,563	41,909	$0.11	$18,074	38,123	$0.47
Effect of dilutive stock options and warrants		593			709	
Diluted EPS	$4,563	42,502	$0.11	$18,074	38,832	$0.47
Stock options excluded from the calculation of common stock equivalents as the impact was anti-dilutive		695			770	
Period ended September 30, 2010:						
Basic EPS	$(1,973)	35,293	$(0.06)	$8,250	35,249	$0.23
Effect of dilutive stock options and warrants		—			705	
Diluted EPS	$(1,973)	35,293	$(0.06)	$8,250	35,954	$0.23
Stock options excluded from the calculation of common stock equivalents as the impact was anti-dilutive		869			1,170	

6. Acquisitions. On September 2, 2011, we entered into an Asset Purchase Agreement with Ash Access Technology, Inc. ("Ash Access"), an Indiana corporation, and AAT Catheter Technologies, LLC ("AAT"), an Indiana limited

liability corporation (collectively "Ash"), to purchase intellectual property rights with respect to various dialysis catheters. We made an initial payment of $5.0 million to Ash in September of 2011. We are obligated to pay an additional $1.0 million upon reaching a certain milestone set forth in the purchase agreement and future royalties based on a percentage of related product sales. The acquisition-date fair value of these contingent liabilities has been included as part of the purchase consideration. Acquisition-related costs during the three and nine-month periods ended September 30, 2011, respectively, which are included in selling, general and administrative

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expense in the accompanying consolidated statements of operations, were not material. There were no sales or net income related to this acquisition recorded in our consolidated financial statements for the three and nine-month periods ended September 30, 2011. The purchase price was preliminarily allocated as follows (in thousands):

Assets Acquired	
Property and equipment	$73
Intangibles	
Developed technology	3,200
Customer lists	300
Goodwill	2,697
Total assets acquired	6,270
Liabilities Assumed	
Contingent liabilities	1,270
Net assets acquired	$5,000

With respect to the assets we acquired from Ash, we intend to amortize developed technology over 15 years and customer lists on an accelerated basis over three years. The total weighted-average amortization period for these acquired intangible assets is nine years. The assets and liabilities related to this acquisition are included in our cardiovascular segment.

Pro forma consolidated financial results for the Ash acquisition discussed above have not been included in our consolidated financial results because we believe their effects would not be material.

The goodwill arising from the Ash acquisition discussed above consists largely of the synergies and economies of scale we hope to achieve from combining the acquired assets with our historical operations (see Note 13). We anticipate that the goodwill recognized from this acquisition will be deductible for income tax purposes.

On June 20, 2011, we entered into an Asset Purchase Agreement to acquire the intellectual property rights to certain vena cava filter technology. We made an initial payment of $1.0 million in June 2011, and we are obligated to pay up to an additional $3.5 million if certain milestones set forth in the purchase agreement are reached related to further research and development activities and regulatory approval of the vena cava filter. On July 18, 2011, we entered into a Technology License Agreement to acquire the intellectual property rights to certain introducer sheath technology. We made an initial payment of $1.0 million in July 2011 and are obligated to pay an additional $1.0 million upon the earlier of the commercialization of the product or the third anniversary of the effective date of the license agreement. The discounted liability of $938,000 has been reflected in our consolidated balance sheet as a long-term liability as of September 30, 2011. These agreements represented asset acquisitions related to research and development projects and not business combinations. A total charge of approximately $2.9 million related to these acquired in-process research and development assets has been included in the accompanying consolidated statements of operations for the three and nine-month periods ended September 30, 2011 since technological feasibility of the underlying research and development projects had not yet been reached and such technology had no future alternative use. The primary basis for determining the technological feasibility of these projects is obtaining regulatory approval to market the underlying products in an applicable geographic region. As of June 30, 2011, we had recorded an increase of $4.5 million in intangible assets and an increase of $3.5 million in other long-term liabilities related to the vena cava filter technology acquisition and the initial $1.0 million payment made in June 2011. Subsequent to the three months ended June 30, 2011, we determined these amounts were recorded in error and corrected the consolidated balance sheet amounts as of September 30, 2011 by recording a corresponding decrease in intangible assets and other long-term liabilities. In addition, the $1.0 million initial payment (approximately $627,000 after tax) was recorded as a charge to acquired in-process research and development assets in the accompanying consolidated statements of operations for the three and nine-month periods ended September 30, 2011. We have concluded that the impact of the error on our consolidated financial statements for the three and six-month periods ended June 30, 2011 is not material, and we do not believe the correction of this error to be material to the consolidated financial statements for the three month period ended September 30, 2011.

On April 6, 2011, we supplemented and amended our Exclusive License, Development and Supply Agreement with Vysera Biomedical Limited ("Vysera") to include the manufacturing rights for their valve technology. We made an initial payment of $500,000 in April 2011 and a final payment of $500,000 in August of 2011. We have recorded the $1.0 million intangible asset as developed technology for purposes of our consolidated balance sheet and we intend to amortize it over an estimated life of 10 years.

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On September 10, 2010, we completed our acquisition of BioSphere Medical, Inc. ("BioSphere") in an all-cash merger transaction valued at approximately $96 million, inclusive of all common equity and Series A Preferred preferences. BioSphere develops and markets embolotherapeutic products for the treatment of uterine fibroids, hypervascularized tumors and arteriovenous malformations. We believe the acquisition of BioSphere gives us a platform technology applicable to multiple therapeutic areas with significant market potential while leveraging existing interventional radiology call points. The gross amount of trade receivables we acquired from BioSphere was approximately $4.6 million, of which $51,000 is expected to be uncollectible. Our consolidated financial statements for the three and nine-month periods ended September 30, 2011 reflect sales subsequent to the acquisition date of approximately $8.0 million and $22.6 million, respectively, related to our BioSphere acquisition. We report sales and operating expenses related to the BioSphere acquisition in our cardiovascular segment. It is not practical to separately report the earnings related to the BioSphere acquisition, as we cannot split out sales costs related to Biosphere's products, principally because our sales representatives are selling multiple products (including BioSphere products) in the cardiovascular business segment. As of December 31, 2010, the BioSphere purchase price was allocated as follows (in thousands):

Assets Acquired	
Marketable securities	$9,673
Trade receivables	4,529
Inventories	5,694
Other assets	1,340
Property and equipment	546
Deferred income tax assets	16,012
Intangibles	
Developed technology	19,000
Customer list	7,900
License agreement	380
Trademark	3,200
Goodwill	34,016
Total assets acquired	102,290
Liabilities Assumed	
Accounts payable	322
Accrued expenses	3,617
Deferred income tax liabilities	729
Liabilities related to unrecognized tax benefits	961
Other liabilities	936
Total liabilities assumed	6,565
Net assets acquired, net of cash acquired of $274	$95,725

For the nine months ended September 30, 2011, the goodwill related to the BioSphere acquisition was decreased by approximately $228,000. The change was primarily due to BioSphere tax adjustments including items related to the BioSphere 2010 income tax return, which was finalized during the third quarter of 2011.

With respect to the BioSphere assets, we intend to amortize developed technology over 15 years, a license agreement over 10 years and customer lists on an accelerated basis over 10 years. While U.S. trademarks can be renewed indefinitely, we currently estimate that we will generate cash flow from the acquired trademarks for a period of 15 years from the acquisition date. The total weighted-average amortization period for these acquired intangible assets is 13.6 years.

In connection with our BioSphere acquisition, we paid approximately $522,000 in long-term debt issuance costs to Wells Fargo Bank ("Wells Fargo") for our long-term debt (see Note 10). These costs consist primarily of loan origination fees and legal costs that we intend to amortize over five years, which is the contract term of an unsecured Credit Agreement, dated September 10, 2010 (the "Credit Agreement") with lenders who are or may become party thereto (collectively, the "Lenders") and Wells Fargo, as administrative agent for the Lenders. We also incurred approximately $86,000 of acquisition-related costs during the nine months ended September 30, 2011, respectively, which are included in selling, general and administrative expense in the

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accompanying consolidated statements of operations.

During the fourth quarter of 2010, we terminated several exclusive BioSphere sales distributor agreements in European countries where we already had previously established direct sales relationships. In connection with the termination of these agreements, we agreed to purchase customer lists from the terminated distributors. The total purchase price of the customer lists was approximately $1.3 million and was allocated to customer lists. We intend to amortize the customer lists on an accelerated basis over 10 years.

On February 19, 2010, we entered into a manufacturing and technology license agreement with a medical device manufacturer for certain medical products. We made an initial payment of $250,000 in February 2010, a second payment of $250,000 in May 2010, a third payment of $250,000 in November 2010 and a final payment of $250,000 in August of 2011. We have included the $1.0 million intangible asset in license agreements and intend to amortize the asset over an estimated life of 10 years.

The following table summarizes our unaudited consolidated results of operations for the three and nine-month periods ended September 30, 2010, as well as the unaudited pro forma consolidated results of operations as though the BioSphere acquisition had occurred on January 1, 2010 (in thousands, except per common share amounts):

	Three Months Ended September 30, 2010		Nine Months Ended September 30, 2010	
	As Reported	Pro Forma	As Reported	Pro Forma
Sales	$73,172	$78,966	$215,552	$236,179
Net income	(1,973)	(4,714)	8,250	2,804
Earnings (loss) per common share:				
Basic	(0.06)	(0.13)	0.23	0.07
Diluted	(0.06)	(0.13)	0.23	0.07

The unaudited pro forma information set forth above is for informational purposes only and should not be considered indicative of actual results that would have been achieved if BioSphere had been acquired at the beginning of 2010, or results that may be obtained in any future period.

7. Segment Reporting. We report our operations in two operating segments: cardiovascular and endoscopy. Our cardiovascular segment consists of cardiology and radiology medical device products which assist in diagnosing and treating coronary artery disease, peripheral vascular disease and other non-vascular diseases. Our cardiovascular segment also includes the embolotherapeutic products acquired from BioSphere. Our endoscopy segment consists of gastroenterology and pulmonary medical device products which assist in the palliative treatment of expanding esophageal, tracheobronchial and biliary strictures caused by malignant tumors. We evaluate the performance of our operating segments based on operating income (loss). Financial information relating to our reportable operating segments and reconciliations to the consolidated totals is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Revenues				
Cardiovascular	$87,532	$71,043	$259,398	$208,540
Endoscopy	2,945	2,129	8,959	7,012
Total revenues	$90,477	$73,172	$268,357	$215,552

Operating Income (Loss)

Cardiovascular	$7,405	$6,032	$30,385	$23,210
Endoscopy	(898)	(9,474)	(2,821)	(11,529)
Total operating income (loss)	$6,507	$(3,442)	$27,564	$11,681

8. Recent Accounting Pronouncements. In September 2011, the Financial Accounting Standards Board ("FASB") issued authoritative guidance related to testing goodwill for impairment. This guidance provides that entities may first assess qualitative

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factors to determine whether it is necessary to perform the two-step goodwill impairment test. If the qualitative assessment results in a more than 50% likely result that the fair value of a reporting unit is less than the carrying amount, then the entity must continue to apply the two-step impairment test. If the entity concludes the fair value exceeds the carrying amount, then neither of the two steps in the goodwill impairment test is required. This guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 with early adoption permitted. We are currently evaluating the impact of adopting this guidance on our consolidated financial statements.

In June 2011, the FASB issued authoritative guidance on the presentation of comprehensive income. This guidance specifies that an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This guidance does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. It also does not change the presentation of related tax effects, before related tax effects, or the portrayal or calculation of earnings per share. This guidance is to be applied retrospectively and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. We are currently evaluating the impact of adopting this guidance on our consolidated financial statements.

In December 2010, the FASB issued authoritative guidance which modifies the requirements of step one of the goodwill impairment test for reporting units with zero or negative carrying amounts. This guidance modifies step one so that for those reporting units, an entity is required to perform step two of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The adoption of this guidance did not have a material effect on our consolidated financial statements.

In December 2010, the FASB issued authoritative guidance to address diversity in practice about pro forma revenue and earnings disclosure requirements. This guidance specifies that if a public entity presents comparative financial statements, the entity shall disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. This guidance also expands the supplemental pro forma disclosures to include a description of the nature and amount of material nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. This guidance is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. We intend to apply these required disclosures to any future business combinations.

In January 2010, the FASB issued additional authoritative guidance on fair value disclosures. The new guidance clarifies two existing disclosure requirements and requires two new disclosures as follows: (1) a "gross" presentation of activities (purchases, sales, and settlements) within the Level 3 rollforward reconciliation, which will replace the "net" presentation format; and (2) detailed disclosures about the transfers in and out of Level 1 and 2 measurements. This guidance is effective for the first interim or annual reporting period beginning after December 15, 2009, except for the gross presentation of the Level 3 rollforward information, which is required for annual reporting periods beginning after December 15, 2010, and for interim reporting periods within those years. We adopted the fair value disclosure guidance on January 1, 2010, except for the gross presentation of the Level 3 rollforward information which we adopted on January 1, 2011. The adoption of this guidance did not have a material effect on our consolidated financial statements.

9. Income Taxes. Our effective tax rate for the three months ended September 30, 2011 was 31.7%. For the corresponding period of 2010, we recorded an income tax benefit, resulting in an effective tax rate of 43.8%. The decrease in the effective tax rate for the three months ended September 30, 2011 compared to the effective tax benefit rate for the corresponding period of 2010 was primarily related to the fact that our U.S. operations, which are taxed at a higher rate than our foreign operations, incurred a pre-tax loss in the third quarter of 2010. Benefits related to the expiration of statutes of limitation with respect to uncertain tax positions also had an impact on the effective tax rate for the three months ended September 30, 2011. For the nine months ended September 30, 2011, our effective tax rate was 33.3%, compared to 29.2% for the corresponding period of 2010. The increase in the effective tax rate for the nine-month period ended September 30, 2011, when compared to the corresponding period of 2010, was primarily related to the increased profit of our U.S. operations which are taxed at a higher rate than our foreign operations (primarily our Irish operations).

10. Long-Term Debt. In connection with our acquisition of BioSphere, we entered into the Credit Agreement with the Lenders and Wells Fargo. Pursuant to the terms of the Credit Agreement, the Lenders have agreed to make revolving credit loans up to an aggregate principal amount of $125 million. Wells Fargo has also agreed to make swing line loans from time to time through the

maturity date of September 10, 2015 in amounts equal to the difference between the amounts actually loaned by the Lenders and the aggregate credit commitment.

On September 10, 2015, all principal, interest and other amounts outstanding under the Credit Agreement are payable in full. At any time prior to the maturity date, we may repay any amounts owing under all revolving credit loans and all swing line loans in whole or in part, without premium or penalty.

Revolving credit loans made under the Credit Agreement bear interest, at our election, at either (i) the base rate (described below) plus 0.25%, (ii) the London Inter-Bank Offered Rate ("LIBOR") Market Index Rate (as defined in the Credit Agreement) plus 1.25%, or (iii) the LIBOR Rate (as defined in the Credit Agreement) plus 1.25%. Swing line loans bear interest at the LIBOR Market Index Rate plus 1.25%. Interest on each loan featuring the base rate or the LIBOR Market Index Rate is due and payable on the last business day of each calendar month; interest on each loan featuring the LIBOR Rate is due and payable on the last day of each interest period selected by us when selecting the LIBOR Rate as the benchmark for interest calculation. For purposes of the Credit Agreement, the base rate means the highest of (i) the prime rate (as announced by Wells Fargo), (ii) the federal funds rate plus 0.50%, and (iii) LIBOR for an interest period of one month plus 1.0%.

The Credit Agreement contains covenants, representations and warranties and other terms, that are customary for revolving credit facilities of this nature. In this regard, the Credit Agreement requires us to maintain a leverage ratio, an EBITDA ratio, and a minimum consolidated net income, and limits the amount of annual capital expenditures we can incur. Additionally, the Credit Agreement contains various negative covenants with which we must comply, including limitations respecting: the incurrence of indebtedness, the creation of liens on our property, mergers or similar combinations or liquidations, asset dispositions, investments in subsidiaries, and other provisions customary in similar types of agreements. As of September 30, 2011, we were in compliance with all financial covenants set forth in the Credit Agreement.

As of September 30, 2011, we had outstanding borrowings of approximately $5.6 million under the Credit Agreement, with available borrowings of approximately $119.4 million, based on the leverage ratio in the terms of the Credit Agreement. As of September 30, 2011, our interest rate under the Credit Agreement was a variable rate of 1.62%.

11. Derivatives.

Interest Rate Swap. On October 25, 2010, we entered into a $55 million pay-fixed, receive-variable interest rate swap with Wells Fargo at a fixed interest rate of 2.73%. The variable portion of the interest rate swap is tied to the one-month LIBOR rate (the benchmark interest rate). The interest rates under both the interest rate swap and the underlying debt are reset, the swap is settled with the counterparty, and interest is paid, on a monthly basis. The interest rate swap was scheduled to expire on September 10, 2015. This interest rate swap had qualified as a cash flow hedge. During the three and nine-month periods ended September 30, 2011, the amount reclassified from accumulated other comprehensive income to earnings due to hedge effectiveness was approximately $5,000 and $73,000, respectively, which is included in interest expense in the accompanying consolidated statements of operations. On July 7, 2011, we terminated our interest rate swap agreement, which resulted in a cash receipt of and gain of approximately $28,000 upon final settlement.

Foreign Currency Forward Contracts. On August 31, 2011, we forecasted a net exposure for September 30, 2011 (representing the difference between Euro and Great Britain Pound ("GBP")-denominated receivables and Euro-denominated payables) of approximately 558,000 Euros and 345,000 GBPs. In order to partially offset such risks, on August 31, 2011, we entered into a 30-day forward contract for the Euro and GBP with notional amounts of approximately 558,000 Euros and 345,000 GBPs. We enter into similar transactions at various times during the year to partially offset exchange rate risks we bear throughout the year. These contracts are marked to market at each month-end. During the three and nine-month periods ended September 30, 2011 and 2010, the effect on our consolidated statement of operations of all forward contracts and the fair value of our open positions was not material.

12. Fair Value Measurements. The fair value of a financial instrument is the amount that could be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial assets are marked to bid prices and financial liabilities are marked to offer prices. Fair value measurements do not include transaction costs. A fair value hierarchy is used to prioritize the quality and reliability of the information used to determine fair values. Categorization within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The fair value hierarchy is defined into the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.
Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.
Level 3: Unobservable inputs that are not corroborated by market

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The following table identifies our financial assets and liabilities carried at fair value measured on a recurring basis as of December 31, 2010 (in thousands):

Description	Total Fair Value at December 31, 2010	Fair Value Measurements Using Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant Unobservable inputs (Level 3)
Interest rate swap (1)	$1,159	—	$1,159	—

(1) The fair value of the interest rate swap is determined based on forward yield curves.

As of September 30, 2011, there were no financial assets or liabilities carried at fair value measured on a recurring basis. During the three and nine-month periods ended September 30, 2011, we had write-offs of approximately $42,000 and $59,000, respectively, compared to approximately $8.4 million and $8.5 million, respectively, for the corresponding three and nine-month periods ended September 30, 2010, related to the measurement of non-financial assets at fair value on a non-recurring basis subsequent to their initial recognition. Of the total write-offs for the three and nine-month periods ended September 30, 2010, approximately $8.3 million related to the impairment of our goodwill balance related to our endoscopy reporting unit. The fair value of goodwill was measured using Level 3 inputs. Subsequent to this impairment charge, there is no goodwill remaining related to the endoscopy reporting unit.

The carrying amount of cash and equivalents, receivables, and trade payables approximates fair value because of the immediate, short-term maturity of these financial instruments. The carrying amount of long-term debt approximates fair value, as determined by borrowing rates estimated to be available to us for debt with similar terms and conditions.

13. Goodwill and Intangible Assets. The changes in the carrying amount of goodwill for the nine months ended September 30, 2011, are as follows (in thousands):

	2011
Goodwill balance at January 1	$58,675
Changes as the result of acquisitions (see Note 6)	2,469
Goodwill balance at September 30	$61,144

Intangible assets at September 30, 2011 and December 31, 2010, consisted of the following (in thousands):

	September 30, 2011			December 31, 2010		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Patents	$6,190	$(1,632)	$4,558	$4,631	$(1,445)	$3,186
Distribution agreement	2,426	(835)	1,591	2,426	(641)	1,785
License agreements	1,983	(414)	1,569	1,833	(352)	1,481
Trademark	5,767	(922)	4,845	5,761	(636)	5,125
Developed technology	40,386	(4,125)	36,261	36,574	(2,301)	34,273
In-process technology	400	—	400	400	—	400
Covenant not to compete	315	(98)	217	315	(67)	248

Customer lists	14,308	(5,205)	9,103	13,973	(3,287)	10,686
Royalty agreements	267	(267)	—	267	(267)	—
Total	$72,042	$(13,498)	$58,544	$66,180	$(8,996)	$57,184

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The aggregate amortization expense was approximately $1.4 million and $4.5 million for the three and nine-month periods ended September 30, 2011, respectively, and approximately $1.0 million and $2.3 million for the three and nine-month periods ended September 30, 2010, respectively.

Estimated amortization expense for our intangible assets for the next five years consisted of the following (in thousands):

Remaining 2011	$1,507
2012	5,306
2013	5,114
2014	4,777
2015	4,514

14. Equity. On June 22, 2011, Merit completed an equity public offering of 5,520,000 shares of common stock and received proceeds of approximately $87.7 million, which is net of approximately $4.6 million in underwriting discounts and commissions. We incurred approximately $127,000 in other direct costs in connection with this equity offering. In addition to the net proceeds of the public equity offering, we received approximately $6.8 million in cash related to the exercise of options to purchase approximately 983,000 shares of common stock and approximately $2.9 million in tax benefits attributable to appreciation of these options exercised during the nine months ended September 30, 2011.

15. Stock Split. On April 21, 2011, our Board of Directors authorized a 5-for-4 forward stock split of our common stock to be effected in the form of a stock dividend of one share of common stock for every four shares of common stock outstanding on the record date. On May 5, 2011, we completed the forward stock split through a stock dividend to shareholders of record as of May 2, 2011. The Board of Directors also made corresponding adjustments to the number of shares subject to, and the exercise price of, outstanding options and other rights to acquire shares of common stock. All earnings per common share and common share data set forth in the foregoing consolidated financial statements (and condensed notes thereto) have been adjusted to reflect the split.

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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 in this Report, 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 the integration, development or commercialization of the business or assets acquired from other parties, any statements regarding future economic conditions or performance, and any statements of assumptions underlying any of the foregoing. All forward-looking statements included in this Report are made as of the date hereof and are based on information available to us as of such date. We assume no obligation to update any forward-looking statement. In some cases, forward-looking statements can be identified by the use of terminology such as "may," "will," "expects," "plans," "anticipates," "intends," "believes," "estimates," "potential," or "continue," or the negative thereof or other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements contained herein are reasonable, there can be no assurance that any such expectation 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 financial condition and results of operations, as well as any forward-looking statements, are subject to inherent risks and uncertainties, including risks relating to product recalls and product liability claims; potential restrictions on our liquidity or our ability to operate our business by our current debt agreements; possible infringement of our technology or the assertion that our technology infringes the rights of other parties; the potential imposition of fines, penalties, or other adverse consequences if our employees or agents violate the U.S. Foreign Corrupt Practices Act or other laws or regulations; expenditures relating to research, development, testing and regulatory approval or clearance of our products and the risk that such products may not be developed successfully or approved for commercial use; greater governmental scrutiny and regulation of the medical device industry; reforms to the 510(k) process administered by the U.S. Food and Drug Administration; laws targeting fraud and abuse in the healthcare industry; potential for significant adverse changes in, or failure to comply with, governing regulations; increases in the price of commodity components; negative changes in economic and industry conditions in the United States and other countries; termination or interruption of relationships with our suppliers, or failure of such suppliers to perform; our potential inability to successfully manage growth through acquisitions, including the inability to commercialize technology acquired through recent, proposed or future acquisitions, including the BioSphere acquisition; fluctuations in Euro and GBP exchange rates; our need to generate sufficient cash flow to fund our debt obligations, capital expenditures, and ongoing operations; concentration of our revenues among a few products and procedures; development of new products and technology that could render our existing products obsolete; market acceptance of new products; volatility in the market price of our common stock; modification or limitation of governmental or private insurance reimbursement policies; changes in health care markets related to health care reform initiatives; failure to comply with applicable environmental laws; changes in key personnel; work stoppage or transportation risks; uncertainties associated with potential healthcare policy changes which may have a material adverse effect on Merit; introduction of products in a timely fashion; price and product competition; availability of labor and materials; cost increases; fluctuations in and obsolescence of inventory; and other factors referred to in our Annual Report on Form 10-K for the year ended December 31, 2010 and other materials filed with the Securities and Exchange Commission. All subsequent forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. Actual results will differ, and may differ materially, from anticipated results. Financial estimates are subject to change and are not intended to be relied upon as predictions of future operating results, and we assume no obligation to update or disclose revisions to those estimates. Additional factors that may have a direct bearing on our operating results are discussed in Part I, Item 1A "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2010.

Overview

The following discussion and analysis of our financial condition and results of operation should be read in conjunction with the consolidated financial statements and related condensed notes thereto, which are included in this Quarterly Report on Form10-Q.

We design, develop, manufacture and market single-use medical products for interventional and diagnostic procedures. For financial reporting purposes, we report our operations in two operating segments: cardiovascular and endoscopy. Our cardiovascular segment consists of cardiology and radiology devices which assist in diagnosing and treating coronary arterial disease, peripheral vascular disease and other non-vascular diseases and includes the embolotherapeutic products we acquired through our acquisition of BioSphere. Our endoscopy segment consists of gastroenterology and pulmonology medical devices which assist in the palliative treatment of expanding esophageal, tracheobronchial and biliary strictures caused by malignant tumors.

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For the quarter ended September 30, 2011, we reported revenues of $90.5 million, up 24% from the three months ended September 30, 2010 of $73.2 million. Revenues for the nine months ended September 30, 2011 were a record $268.4 million, compared with $215.6 million for the first nine months of 2010, a gain of 24%.

Our base business sales (which exclude BioSphere's embolization device sales) increased 15.1% for the third quarter of 2011, compared to the third quarter of 2010. Our base business sales for the nine months ended September 30, 2011 increased 14.8% when compared to the corresponding period for 2010. Sales of BioSphere embolization devices accounted for an increase of 8.9% and 9.8% of sales for the three and nine-month periods ended September 30, 2011, respectively.

Gross profits were 45.4% and 46.0% of sales for the three and nine-month periods ended September 30, 2011, respectively, compared to 42.7% of sales for both the three and nine-month periods ended September 30, 2010, respectively. The improvement in gross profits for both periods was primarily due to the addition of higher-margin BioSphere product sales and higher prices and unit sales through our distribution system in China.

During the quarter ended September 30, 2011, we recorded a charge of $3.4 million for acquired in-process research and development, primarily related to the acquisition of intellectual property for a vena cava filter of $1.0 million, flexible sheath technology of approximately $1.9 million, and the write-off of our coating technology of $500,000.

Net income for the quarter ended September 30, 2011 was $4.6 million, or $.11 per share, compared to a loss of ($2.0) million, or ($0.06) per share, for the corresponding period of 2010. Net income for the nine-month period ended September 30, 2011 was $18.1 million, or $0.47 per share, compared to $8.3 million, or $0.23 per share, for the corresponding period of 2010. When compared to the prior year periods and excluding the non-recurring charges for the BioSphere transaction costs, severance costs and goodwill impairment recognized in the three and nine-month periods ended September 30, 2010, net income for the three and nine-month periods ended September 30, 2011 was favorably affected by higher sales and gross margins, which was partially offset by higher selling, general and administrative expenses, increased research and development expenses and acquired in-process research and development of $3.4 million.

Our business continues to grow in most of our geographic regions and product groups. We plan to continue to expand our product offerings in strategic foreign markets, as the sales growth in these international markets are growing much more rapidly than our U.S. market. Our international sales for the nine months ended September 30, 2011 represented 35% of our total sales, compared to 31% of our total sales for the comparable period of 2010. We believe the investments we have made over the past few years in acquisitions and internally-developed products are paying off. Our acquisitions are providing best-in-class products as well as the pull-through of other core products we sell, which has helped accelerate our sales growth.

Results of Operations

The following table sets forth certain operational data as a percentage of sales for the three and nine-month periods ended September 30, 2011 and 2010:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2011		2010		2011		2010	
Sales	100.0	%	100.0	%	100.0	%	100.0	%
Gross profit	45.4		42.7		46.0		42.7	
Selling, general and administrative expenses	28.4		30.7		28.5		28.5	
Research and development cost	6.0		5.3		5.9		4.9	

Acquired in-process research and development	3.8	—	1.3	—
Goodwill impairment charge	—	11.4	—	3.9
Income (loss) from operations	7.2	(4.7)	10.3	5.4
Other income (expense)	0.2	(0.1)	(0.2)	—
Net income (loss)	5.0	(2.7)	6.7	3.8

Sales. Sales for the three months ended September 30, 2011 increased by 24%, or approximately $17.3 million, compared to the corresponding period of 2010. Sales for the nine months ended September 30, 2011 increased by 24%, or approximately $52.8 million, compared to the corresponding period of 2010. Listed below are the sales by business segment for the three and nine-

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month periods ended September 30, 2011 and 2010 (in thousands):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	% Change		2011	2010	% Change		2011	2010
Cardiovascular								
Stand-alone devices	19	%	$25,514	$21,391	17	%	$76,312	$65,138
Custom kits and procedure trays	6	%	22,947	21,675	11	%	68,878	62,054
Inflation devices	5	%	16,165	15,367	9	%	50,564	46,489
Catheters	34	%	14,929	11,115	23	%	41,037	33,364
Embolization devices	433	%	7,969	1,495	1,412	%	22,600	1,495
Total	23	%	87,524	71,043	24	%	259,391	208,540
Endoscopy								
Endoscopy devices	39	%	2,953	2,129	28	%	8,966	7,012
Total	24	%	$90,477	$73,172	24	%	$268,357	$215,552

Cardiovascular Sales. Cardiovascular sales growth of 23% for the three months ended September 30, 2011, and 24% for the nine months ended September 30, 2011, when compared to the corresponding periods of 2010, was primarily due to an increase in sales of BioSphere embolization products of $6.5 million and $21.1 million, respectively, and an increase in sales of stand-alone devices for the three and nine-month periods ended September 30, 2011. Sales were also favorably affected by increased catheter sales (particularly our Prelude® sheath product line, aspiration catheter product line and micro catheter product line), sales of custom kits and procedure trays and inflation device sales.

Endoscopy Sales. Endoscopy sales growth of 39% for the three months ended September 30, 2011, and 28% for the nine months ended September 30, 2011, when compared to the corresponding periods of 2010, was primarily due to an increase in sales of our Aero® Tracheobronchial stent.

Gross Profit. Gross profit was 45.4% and 46.0% of sales for the three and nine-month periods ended September 30, 2011, respectively, compared to 42.7% of sales for both the three and nine-month periods ended September 30, 2010. The improvement in gross profit for both periods was primarily due to the addition of higher-margin BioSphere products and higher prices and unit sales through our distribution system in China.

Operating Expenses. Selling, general and administrative expenses decreased to 28.4% of sales for the three months ended September 30, 2011, compared with 30.7% of sales for the three months ended September 30, 2010. Selling, general and administrative expenses was 28.5% of sales for both the nine-month periods ended September 30, 2011 and 2010. Selling, general and administrative expenses for the three and nine-month periods ended September 30, 2010, adjusted for non-recurring BioSphere transactions costs and acquisition severance costs, would have been 26.9% and 26.7%, respectively. The increase in selling, general and administrative expenses for both periods in 2011 was primarily related to the addition of sales and marketing employees, trade shows, commissions and amortization of intangibles relating to the BioSphere acquisition and starting up our Chinese distribution system.

Research and Development Expenses. Research and development expenses increased to 6.0% of sales for the three months ended September 30, 2011, compared with 5.3% of sales for the three months ended September 30, 2010. Research and development expenses increased to 5.9% of sales for the nine months ended September 30, 2011, compared to 4.9% of sales for the nine months ended September 30, 2010. The increase in research and development expenses for both 2011 periods related primarily to additional regulatory costs incurred for the start-up of Merit's HiQuality clinical trial, seeking product regulatory approvals from the FDA and international regulatory agencies, and the development of several new products for Merit's endoscopy product line.

During the quarter ended September 30, 2011, we recorded a charge of $3.4 million for acquired in-process research and development, primarily related to the acquisition of intellectual property for a vena cava filter of $1.0 million, flexible sheath technology of approximately $1.9 million, and the write-off of our coating technology of $500,000.

Operating Income (Loss). The following table sets forth our operating income or loss by business segment for the three and

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nine-month periods ended September 30, 2011 and 2010 (in thousands):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2011		2010		2011		2010	
Operating Income (Loss)								
Cardiovascular	$7,405		$6,032		$30,385		$23,210	
Endoscopy	(898	)	(9,474	)	(2,821	)	(11,529	)
Total operating income (loss)	$6,507		$(3,442	)	$27,564		$11,681	

Cardiovascular Operating Income. For the three months ended September 30, 2011, we reported income from operations of approximately $7.4 million from our cardiovascular business segment, compared to income of approximately $6.0 million for the corresponding period of 2010. For the nine months ended September 30, 2011, we reported income from operations of approximately $30.4 million from our cardiovascular business segment, compared to income of approximately $23.2 million for the corresponding period in 2010. When compared to the prior year periods, the operating income for the three and nine-month periods ended September 30, 2011 was favorably affected by higher sales and gross margins, and was negatively affected by higher selling, general and administrative expenses, research and development expenses and acquired in-process research and development.

Endoscopy Operating Loss. For the three months ended September 30, 2011, we reported a loss from operations of approximately $898,000 from our endoscopy business segment, compared to a loss of approximately $9.5 million for the corresponding period of 2010. For the nine months ended September 30, 2011, we reported a loss from operations of approximately $2.8 million from our endoscopy business segment, compared to a loss of approximately $11.5 million for the corresponding period of 2010. Absent a goodwill impairment charge of approximately $8.3 million that we recognized during the three-month period ended September 30, 2010, the net loss from operations for the three and nine month-periods ended September 30, 2010 would have been approximately $1.1 million and $3.2 million, respectively. The decrease in operating loss for the three and nine-month periods ended September 30, 2011, when compared to the corresponding periods of 2010, was favorably affected by higher sales and gross margins, and was negatively affected by higher research and development expenses and selling, general and administrative expenses.

Other Income (Expense). Other income for the three months ended September 30, 2011 was approximately $176,000, compared to other expense of approximately ($70,000) for the corresponding period in 2010. The net increase in other income for the three-month period ended September 30, 2011 was primarily the result of a decrease in interest expense associated with a lower long-term debt balance and an increase in foreign exchange transaction gains, when compared to the comparable period in 2010. Other expense for the nine months ended September 30, 2011 was approximately ($465,000), compared to other expense of approximately ($24,000) for the corresponding period in 2010. The increase in other expense for the nine months ended September 30, 2011 was principally the result of interest expense related to the long-term debt balance incurred in connection with the acquisition of BioSphere in September of 2010, when compared to the corresponding period in 2010.

Income Taxes. Our income tax expense for the three months ended September 30, 2011 reflects an effective tax rate of 31.7%. For the comparable period of 2010, we recorded an income tax benefit, resulting in an effective tax rate of 43.8%. The decrease in the effective tax rate for the three months ended September 30, 2011 compared to the effective tax benefit rate for the corresponding period of 2010 was primarily related to the fact that our U.S. operations, which are taxed at a higher rate than our foreign operations, incurred a pre-tax loss in the third quarter of 2010. Benefits related to the expiration of statutes of limitation with respect to uncertain tax positions also had an impact on the effective tax rate for the three months ended September 30, 2011. For the nine months ended September 30, 2011, our effective tax rate was 33.3%, compared to 29.2% for the corresponding period of 2010. The increase in the effective tax rate for the nine-month period ended September 30, 2011, when compared to the corresponding period of 2010, was primarily related to the increased profit of our U.S. operations which are taxed at a higher rate than our foreign operations (primarily our Irish operations).

Net Income. Net income for the quarter ended September 30, 2011 was $4.6 million, or $.11 per share, compared to a loss of ($2.0) million, or ($0.06) per share, for the corresponding period of 2010. Net income for the nine-month period ended September 30, 2011 was $18.1 million, or $0.47 per share, compared to $8.3 million, or $0.23 per share, for the corresponding period of 2010. When compared to the prior year periods and excluding the non-recurring charges for the BioSphere transaction costs, severance costs and goodwill impairment recognized in the three and nine-month periods ended September 30, 2010, net income for the three and nine-month periods ended September 30, 2011 was favorably affected by higher sales and gross margins, but were negatively affected by higher selling, general and administrative expenses, increased research and development expenses and acquired in-process research and development expenses of $3.4 million.

Liquidity and Capital Resources

On June 22, 2011, we completed our first equity offering since 1992 of 5,520,000 shares of common stock and received proceeds of $87.7 million, which is net of approximately $4.6 million in underwriting discounts and commissions (the "Equity Offering"). We incurred approximately $127,000 in other direct costs in connection with the Equity Offering. In the short term, we used the proceeds of the Equity Offering to pay down our debt and reduce interest costs. In the longer term, we intend to use the portion of our credit facility that was repaid with the proceeds of the Equity Offering to invest in capacity and expansion, new products and other business development opportunities. In addition to the proceeds of the Equity Offering , we received approximately $6.8 million in cash related to the exercise of options to acquire approximately 983,000 shares of common stock and approximately $2.9 million in tax benefits attributable to appreciation of the options exercised during the nine months ended September 30, 2011.

Our working capital as of September 30, 2011 and December 31, 2010 was $75.7 million and $72.1 million, respectively. As of September 30, 2011, we had a current ratio of 2.6 to 1.

During the nine months ended September 30, 2011, our inventory balances increased by approximately $6.0 million, from $60.6 million at December 31, 2010 to $66.6 million at September 30, 2011. The increase was primarily the result of record sales for nine-months ended September 30, 2011 and a $2.0 million increase in raw materials related to maintaining a one-year supply of resins.

On September 10, 2010, we entered into the Credit Agreement with the Lenders and Wells Fargo. As of September 30, 2011, Wells Fargo was the only bank involved in the Credit Agreement. Pursuant to the terms of the Credit Agreement, the Lenders have agreed to make revolving credit loans up to an aggregate principal amount of $125 million. Wells Fargo has also agreed to make swing line loans from time to time through the maturity date of September 10, 2015 in amounts equal to the difference between the amounts actually loaned by the Lenders and the aggregate credit commitment. The Credit Agreement contains covenants, representations and warranties and other terms, that are customary for revolving credit facilities of this nature. In this regard, the Credit Agreement requires us to maintain a leverage ratio, an EBITDA ratio, and a minimum adjusted consolidated net income and limits the amount of annual capital expenditures we can incur. Additionally, the Credit Agreement contains various negative covenants with which we must comply, including limitations respecting: the incurrence of indebtedness, the creation of liens on our property, mergers or similar combinations or liquidations, asset dispositions, investments in subsidiaries, and other provisions customary in similar types of agreements. As of September 30, 2011, we were in compliance with all financial covenants set forth in the Credit Agreement.

As of September 30, 2011, we had outstanding borrowings of approximately $5.6 million under the Credit Agreement, with available borrowings of approximately $119.4 million, based on the leverage ratio in the terms of the Credit Agreement. Our interest rate under the Credit Agreement as of September 30, 2011, was a variable floating rate of 1.62%. In July 2011, we used $55.0 million of the proceeds from the Equity Offering to pay down the outstanding balance on our Credit Agreement, and we terminated our interest rate swap agreement, which resulted in a cash receipt of and gain of approximately $28,000 upon final settlement.

Historically, we have incurred significant expenses in connection with new facilities, production automation, product development and the introduction of new products. Over the last two years, we spent a substantial amount of cash in connection with our acquisition of certain assets and product lines ($96.0 million to acquire BioSphere in September 2010 and $46.2 million to acquire the assets of Alveolus, Inc. and Hatch Medical, L.L.C., among other transactions, during 2009). We plan to construct three new production facilities over the next two years in South

Jordan, Utah, Galway, Ireland, and Pearland, Texas and a parking terrace in South Jordan, Utah, with total anticipated costs of approximately $72.0 million. As of September 30, 2011, we had incurred total costs of approximately $24.9 million with respect to those construction projects. In the event we pursue and complete significant transactions or acquisitions in the future, additional funds will likely be required to meet our strategic needs, which may require us to raise additional funds in the debt or equity markets. We currently believe that our existing cash balances, anticipated future cash flows from operations, sales of equity, and existing lines of credit and committed debt financing will be adequate to fund our current and currently planned future operations for the next twelve months and the foreseeable future.

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CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Critical Accounting Policies

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

Inventory Obsolescence Reserve. Our management reviews on a quarterly basis inventory quantities on hand for unmarketable and/or slow-moving products that may expire prior to being sold. This review includes quantities on hand for both raw materials and finished goods. Based on this review, we provide a reserve for any slow-moving finished goods or raw materials that we believe will expire prior to being sold or used to produce a finished good and any products that are unmarketable. This review of inventory quantities for unmarketable and/or slow-moving products is based on forecasted product demand prior to expiration lives.

Forecasted unit demand is derived from our historical experience of product sales and production raw material usage. If market conditions become less favorable than those projected by our management, additional inventory write-downs may be required. During the years ended December 31, 2010 and 2009, respectively, we provided on an annual basis an obsolescence reserve expense of between $1.9 million to $1.5 million and have written off against such reserves between $1.1 million and $1.3 million on an annual basis. Based on this historical trend, we believe that the amount included in our obsolescence reserve represents an accurate estimate of the unmarketable and/or slow moving products that may expire prior to being sold.

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 bad debts as the result of the termination of our business relationships with 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 relating to 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.

Stock-Based Compensation. 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 fair value of share-based awards granted and their expected forfeiture rate. If actual results differ significantly from these estimates, stock-based compensation expense and our results of operations could be materially impacted.

Income Taxes. Our income tax expense, deferred tax assets and liabilities, and reserves for unrecognized tax benefits reflect our management's best assessment of future taxes to be paid. Significant judgment and estimates are required in determining the consolidated income tax expense. Deferred income taxes arise from temporary differences between the tax and financial statement recognition of revenue and expense. In evaluating our ability to recover deferred tax assets, we consider projected future taxable income and recent financial operations. These assumptions require significant judgment about the forecasts of future taxable income and are consistent with the plans and estimates we are using to manage the underlying business.

Under our accounting policies, we initially recognize a tax position in our financial statements when it becomes more likely than not that the position will be sustained upon examination by the tax authorities. Such tax positions are initially and subsequently measured as the largest amount of tax positions 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 unrecognized tax benefits 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. Tax laws are subject to varied interpretations, and we have taken positions related to certain matters where the laws are subject to interpretation.

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Goodwill and Intangible Assets Impairment. We test our goodwill balances for impairment as of July 1 of each year, or whenever impairment indicators arise. We utilize several reporting units in evaluating goodwill for impairment. We assess the estimated fair value of reporting units based on discounted future cash flows. If the carrying amount of a reporting unit exceeds the fair value of the reporting unit, an impairment charge is recognized in an amount equal to the excess of the carrying amount of the reporting unit goodwill over the implied fair value of that goodwill. This analysis requires significant judgments, including estimation of future cash flows and the length of time they will occur, which is based on internal forecasts, and a determination of a discount rate based on our weighted average cost of capital.

We evaluate the recoverability of intangible assets whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. This analysis requires similar significant judgments as those discussed above regarding goodwill, except that undiscounted cash flows are compared to the carrying amount of intangible assets to determine if impairment exists. All of our intangible assets are subject to amortization.

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. We also have a limited market risk relating to the Chinese Yuan, Hong Kong Dollar and the Swedish and Danish Kroner. Our consolidated financial statements are denominated in, and our principal currency is, the U.S. Dollar. For the three months ended September 30, 2011, a portion of our revenues ($13.2 million, representing approximately 14.6% of aggregate revenues), was attributable to sales that were denominated in foreign currencies. All other international sales were denominated in U.S. Dollars. Certain of our expenses for the quarter ended September 30, 2011 were also denominated in foreign currencies, which partially offset risks associated with fluctuations of exchange rates between foreign currencies on the one hand, and the U.S. Dollar on the other hand. During the three months ended September 30, 2011, the exchange rate between our foreign currencies against the U.S. Dollar resulted in an increase in our gross revenues of approximately $943,000, or 1.0%, and an increase in cost of goods sold of approximately $902,000, or a decrease of 0.43% in gross profit. The decrease in gross profits was the result of an increase in our Irish manufacturing expenses which are primarily denominated in Euros.

On August 31, 2011, we forecasted a net exposure for September 30, 2011 (representing the difference between Euro and GBP-denominated receivables and Euro-denominated payables) of approximately 558,000 Euros and 345,000 GBPs. In order to partially offset such risks, on August 31, 2011, we entered into a 30-day forward contract for the Euro and GBP with notional amounts of approximately 558,000 Euros and 345,000 GBPs. We enter into similar transactions at various times during the year to partially offset exchange rate risks we bear throughout the year. These contracts are marked to market at each month-end. During the three and nine months ended September 30, 2011 and 2010, the effect on the consolidated statement of operations of all forward contracts and the fair value of our open positions was not material.

As discussed in Note 10 to our consolidated financial statements, as of September 30, 2011, we had outstanding borrowings of approximately $5.6 million under the Credit Agreement. Accordingly, our earnings and after-tax cash flow are affected by changes in interest rates. In the event of an adverse change in interest rates, our management could take actions to mitigate our interest rate exposure through an interest rate swap agreement. However, due to the uncertainty of the actions that would be taken and their possible effects, additional analysis is not possible at this time. Further, such analysis would not consider the effects of the change in the level of overall economic activity that could exist in such an environment.

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, 2011. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Based on that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely

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decisions regarding required disclosure.

(b) Changes in Internal Control Over Financial Reporting

During the three months ended September 30, 2011, there were no changes in our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934).

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are subject to certain legal actions which we consider routine to our business activities. As of September 30, 2011, our management concluded, after consultation with legal counsel, that the ultimate outcome of such legal matters is not likely to have a material adverse effect on our financial position, liquidity or results of operations.

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, 2010, 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 we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and/or operating results.

ITEM 6. EXHIBITS

Exhibit No.	Description
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following financial information from the quarterly report on Form 10-Q of Merit Medical Systems, Inc. for the quarter ended September 30, 2011, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Statements of Operations, (ii) Consolidated Balance Sheets, (iii) Consolidated Statements of Cash Flows, and (iv) Notes to the Consolidated Financial Statements

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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, 2011	/s/ FRED P. LAMPROPOULOS FRED P. LAMPROPOULOS PRESIDENT AND CHIEF EXECUTIVE OFFICER
Date: November 8, 2011	/s/ KENT W. STANGER KENT W. STANGER CHIEF FINANCIAL OFFICER

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