POSSIS®

Bringing Medical Possibilities to Life®

See Our Strength

2005 Annual Report

Contents

Proprietary technology.

Strong market presence.

Proven business model.

Powerful growth potential.

Take a good look at Possis and see our strength.

Look deeper, and you'll see something else: our strong, unwavering commitment to fight the devastating effects of intra-vascular blood clots. More than 10 million people suffer from these circulation-blocking blood clots every year. So far, our pioneering, market-leading AngioJet® technology has helped to save more than 250,000 lives and limbs.

We're just getting started.

Saving Lives and Limbs: A Primer

It happens in a heartbeat. A blood clot (thrombus) develops, stopping the flow of blood through an artery or vein, putting your life or limbs in peril. Nearly as quickly, the AngioJet® Rheolytic™ Thrombectomy System can help restore blood flow. It is effective, safe, and minimally invasive.

Aging, coronary artery disease, high blood pressure, diabetes, kidney disease, high cholesterol: these and other conditions contribute to the formation of plaque, which in turn causes arteries to narrow. When the surface of the plaque ruptures, lipids are released which can interact with blood to form a blood clot, called a thrombus. A thrombus further reduces or blocks (occludes) blood flow, sometimes leading to a heart attack, stroke, or loss of a limb.

A thrombus can develop anywhere in the body and is often considered life threatening. Action must be taken to remove the thrombus (thrombectomy) and restore blood flow quickly. And that's where Possis comes in.

Stages of Vessel Occlusion and Treatment

We all start out with normal, healthy vessels free from obstruction

As we age, most of us develop some vascular deposits called plaque

When severe, the hard, inflexible plaque can rupture and cause thrombus to form. Thrombus can slow or totally obstruct blood flow

AngioJet thrombectomy quickly removes the thrombus, restoring blood flow, giving doctors a clear view of the damaged vessel

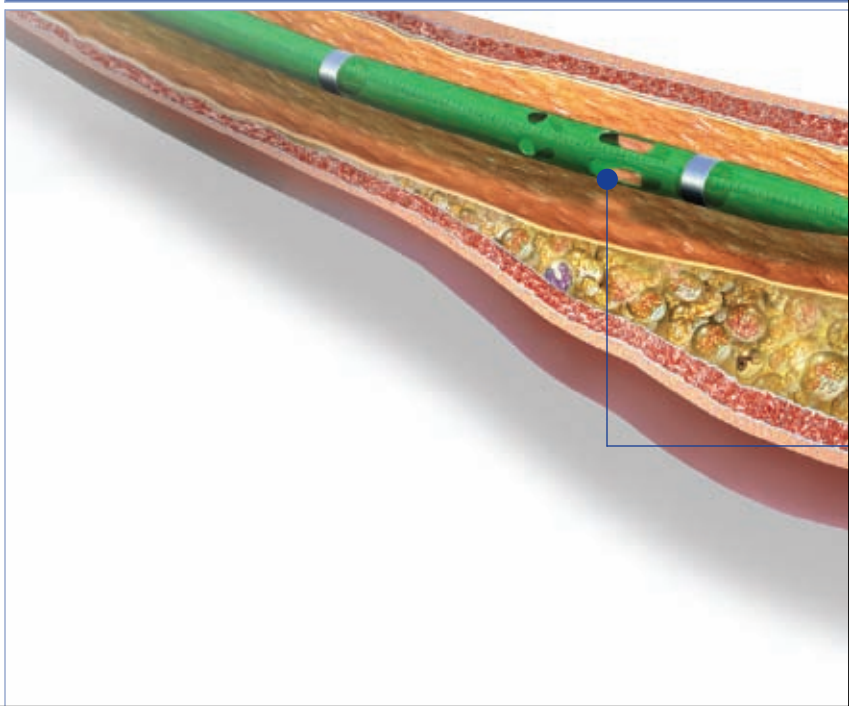
With the thrombus removed, the narrowing in the vessel is ready for further treatment if needed

Other approaches, such as atherectomy, may be used to reduce the plaque by grinding, cutting or shaving

Stents are now a common way to treat plaque and widen the vessel

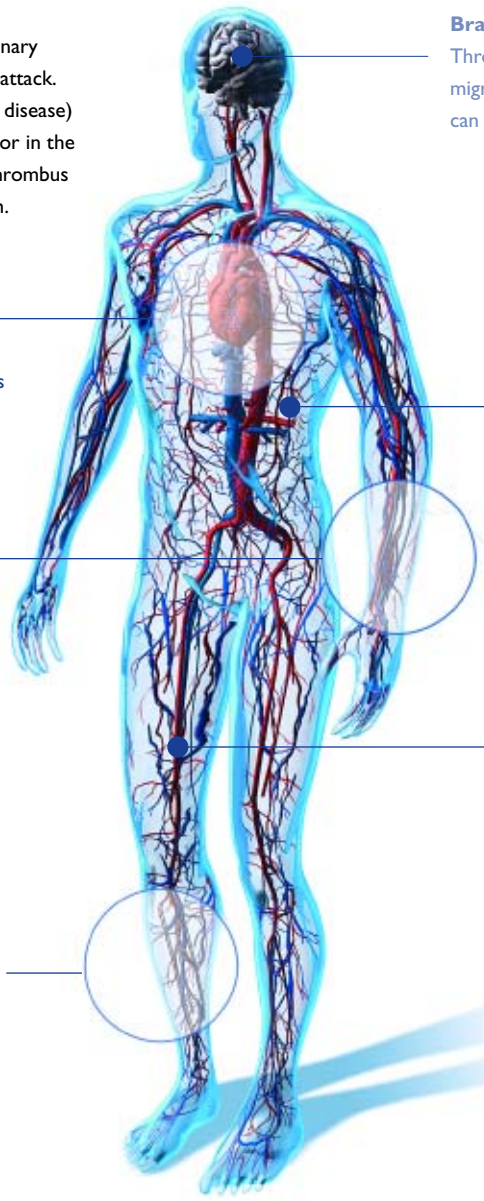
An inside view: AngioJet® technology in action

The AngioJet system is faster, less invasive and more cost-effective than medication or surgery. It's frequently used in drug/device combination therapies. By first removing blood clots from the vessels, AngioJet thrombectomy facilitates more effective stenting or angioplasty treatments.



Where can thrombus occur?

Thrombus can occur in the arteries of the heart (coronary artery disease), causing myocardial infarction or heart attack. It can also occur in the leg arteries (peripheral arterial disease) or veins (venous thrombosis), in dialysis access grafts, or in the brain's blood vessels, causing ischemic stroke. When thrombus migrates to the lungs it is called a pulmonary embolism.



Brain: Cerebral Arteries
Thrombus that forms in or migrates to these vessels can cause ischemic stroke.

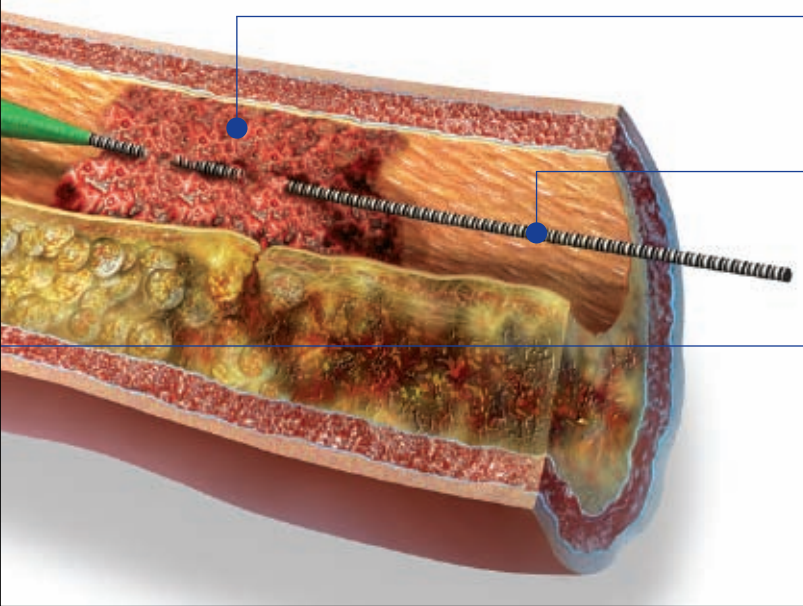
Heart: Coronary Arteries and Bypass Grafts
Thrombus in the coronary arteries and bypass grafts (including saphenous veins grafted from the leg), can cause coronary ischemia and myocardial infarction (heart attack).

Lungs: Pulmonary Arteries
When a thrombus migrates (typically from leg veins) to the lungs, it is a life-threatening condition called pulmonary embolism (PE).

Dialysis Access Grafts
Dialysis patients can develop blockages in their access grafts, requiring clot removal on a regular basis. Over 285,000 de-clotting procedures are performed each year in the U.S.

Leg Veins: Deep Veins
Thrombus in the deep veins of the legs, called deep vein thrombosis (DVT), can cause painful swelling, reduced blood circulation, and threaten the leg with amputation. If the thrombus migrates to the lungs it can cause pulmonary embolism.

Legs: Peripheral Arteries
Blood clots can occur in both the leg arteries and veins. If severe and left untreated they may lead to amputation.



Plaque causes narrowing of the artery. Blood clot (thrombus) further restricts blood flow.

AngioJet catheter is inserted into the blood vessel with a guidewire.

High-speed saline jets inside the catheter create a vacuum, drawing thrombus into the catheter. Thrombus is fragmented by the jets, then propelled back through the catheter and out of the body.

Strength in proprietary technology

Three proprietary components, #1 thrombectomy choice

Possis was the first to enter the mechanical thrombectomy market with our introduction of the AngioJet system in 1997. Today it is still the physician's top choice for thrombectomy. The AngioJet system encompasses three basic components: The drive unit, pump set, and catheters. We are continuously advancing our product line.

The drive unit monitors safety and assures balanced flow and volume of the saline solution delivered to the single-use pump set. The pump set provides effective and sterile fluid delivery into the catheter. Possis catheters are thin, flexible tubes inserted into blood vessels with a guidewire. They are designed and approved for a variety of indications.

Our proprietary portfolio creates a substantial entry barrier for competitors. It includes:

- 25 U.S. patents
- 6 patents outside U.S.
- 16 U.S. patent applications
- 16 patent applications outside U.S.

Drive Unit

The drive unit, or console, monitors flow and volume of the saline solution that is delivered to the pump set.

The new Ultra Console was submitted to the FDA for approval in late summer, 2005. It provides significantly more flexibility and automates the set-up process, making it much simpler to operate.

AngioJet® Drive Unit

AngioJet® Ultra Console

Pump Set

The pump set delivers high-pressure sterile fluid – a saline solution or thrombolytic drugs – into the catheter.

Strategic extensions of our product portfolio

Our highly-trained staff of 80 sales people and clinical sales specialists stay on top of current practice methodologies through close collaboration with interventional cardiologists, radiologists, and vascular surgeons. They also work closely with Possis research and development experts, conveying their first-hand knowledge of real-world clinical needs. The result is our growing portfolio of new and well-accepted products.

The new AngioJet Spiroflex™ catheter is an improved version of our best-selling coronary catheter, ideal for difficult anatomy. Initial physician feedback has exceeded our expectations. Our powerful new DVX™ catheter, initially approved for peripheral arterial applications, holds enormous application potential in the venous thrombosis market. With five times the evacuation power of earlier models, it can tackle older, tougher thrombus in large peripheral vessels. The Power Pulse™ delivery system, approved for use in 2004, is rapidly gaining ground as a more effective and potentially safer treatment for difficult peripheral thrombus. The most exciting addition to our growing portfolio? The new AngioJet Ultra™ System. With its integrated disposable components and totally re-engineered drive unit, the Ultra System will significantly simplify the set-up and operation of AngioJet Thrombectomy for busy hospital staff.

Catheters: Compact, Powerful, Patented

Our disposable catheters are the first choice of physicians because they are safe, easy to handle – and superior to other mechanical thrombectomy devices. AngioJet catheters are powered by high-speed waterjets with patented Cross-Stream® technology. The jets, traveling at half the speed of sound, create a low-pressure zone inside the catheter. The result is a high-power vacuum that draws blood clots into the catheter where they are fragmented and evacuated from the body, reestablishing vital blood flow in mere seconds.

XMI®

Spiroflex™

XVG®

Xpeedior™

DVX™

"Until recently, there were no consistently effective interventional therapies for removing the larger, tougher clots found in peripheral vessels. The AngioJet Thrombectomy System has become a valuable tool in the treatment of peripheral vascular disease. And with the option of Power Pulse Delivery, I can now resolve many of my patients' peripheral clots – often with just one visit to the cath lab. AngioJet's successful arterial applications suggest it may be just as effective in the treatment of deep vein thrombosis, which at this time has no aggressive treatment options. Future research will determine the safety of this device in DVT therapy."

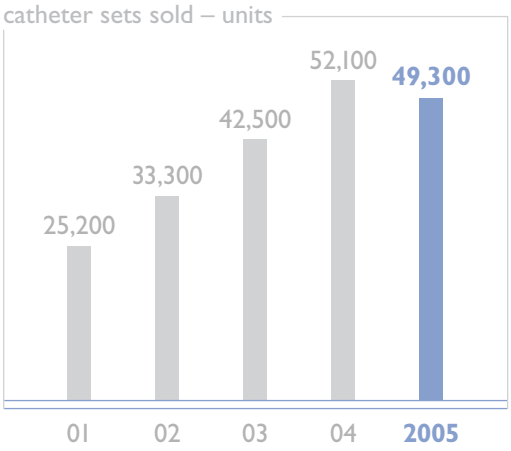
Anthony C. Venbrux, MD
Interventional Radiologist
The George Washington University Medical Center

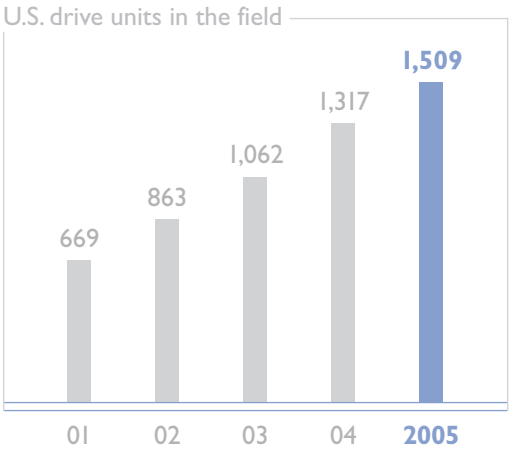
a Strong presence in the market

Leading the market

Possis is leading the way in the large – and growing – market for mechanical thrombectomy, with 16 percent of the current realizable U.S. market. In fact, Possis holds the advantage in all three of our primary market areas: coronary, peripheral arterial and AV access. But our biggest point of pride is the lives and limbs we've helped to save.

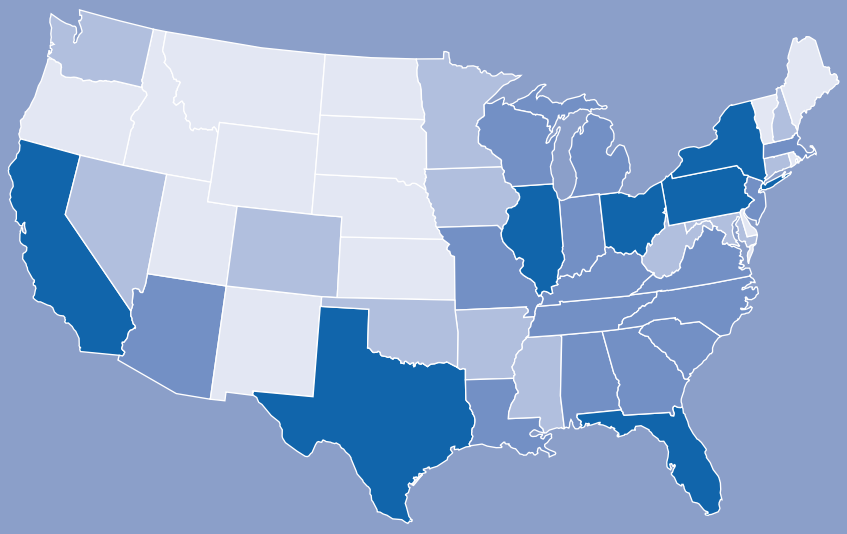
Worldwide, we've helped more than 250,000 patients and counting – more than any other thrombectomy manufacturer. Each year, AngioJet technology helps more people avoid the devastating effects of heart attacks and amputation, maintain healthy blood flow, live active lives, and celebrate their next birthday.





Embedded advantage: 1,500 installed drive units

In the U.S., 95% of the top coronary labs have installed a Possis drive unit. Drive units represent a major capital investment. About 80% of units are purchased outright, signaling the medical community's commitment to and confidence in Possis' medical technology expertise.



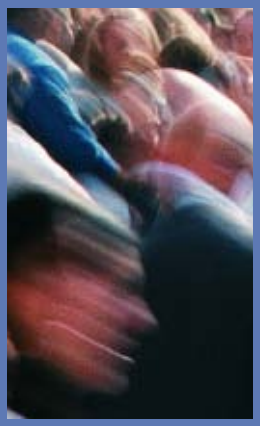
250,000

patients strong – and counting

72,800

01

106,100



02

148,600

03

200,700

04

250,000+

2005

Alabama	33	Iowa	14	Minnesota	20	New York	82	Virginia	39
Alaska	2	Idaho	2	Missouri	28	Ohio	82	Vermont	1
Arkansas	19	Illinois	68	Mississippi	20	Oklahoma	21	Washington	24
Arizona	39	Indiana	38	Montana	4	Oregon	9	Washington D.C.	4
California	109	Kansas	10	North Carolina	47	Pennsylvania	79	Wisconsin	36
Colorado	21	Kentucky	26	North Dakota	6	Rhode Island	6	West Virginia	15
Connecticut	15	Louisiana	38	Nebraska	7	South Carolina	30	Wyoming	1
Delaware	5	Massachusetts	33	New Hampshire	11	South Dakota	4		
Florida	119	Maryland	23	New Jersey	44	Tennessee	43		
Georgia	47	Maine	6	New Mexico	8	Texas	146		
Hawaii	6	Michigan	45	Nevada	11	Utah	9		

Proven business model

Sound management practices

Sound management practices delivered Possis into the ranks of the 50 fastest growing technology companies in Minnesota early in 2005. It earned us a spot in the 2005 Deloitte Technology Fast 500, a ranking of the 500 top-performing technology companies in North America. It fueled profitability for 19 consecutive quarters – and counting. It kept Possis in a leadership position since the introduction of our AngioJet technology. And it will continue to drive our growth and sustain our success in the future.

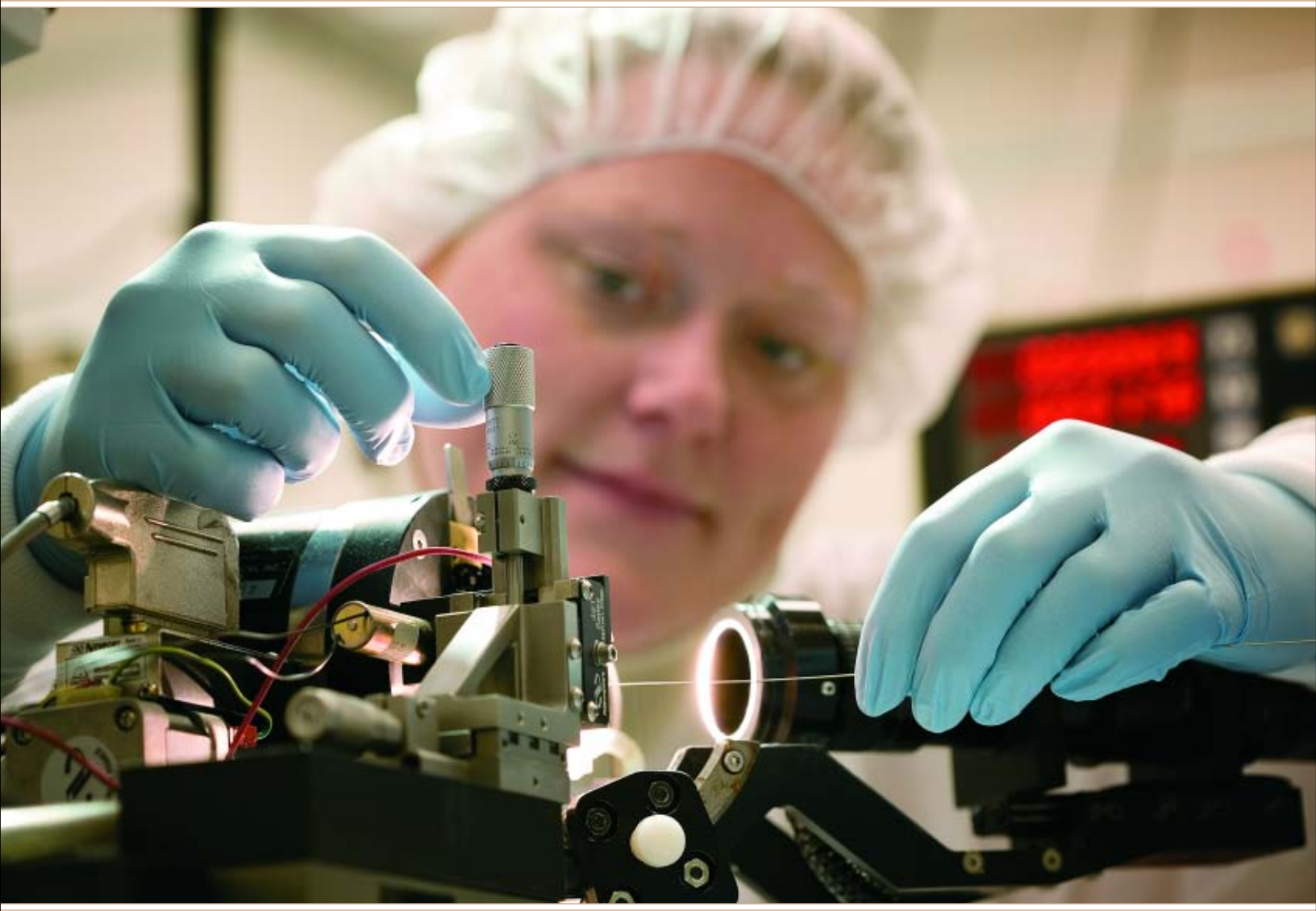
We're committed to growing strategically, maintaining conservative fiscal policies, and reinvesting in our business through new science and products. Our style is steady and strategic, from growing our sales force to expanding our core technology. Our sustainable business model has yielded the resources and financial strength to fund more clinical science, pursue new vascular market opportunities, and continue to grow our product portfolio.

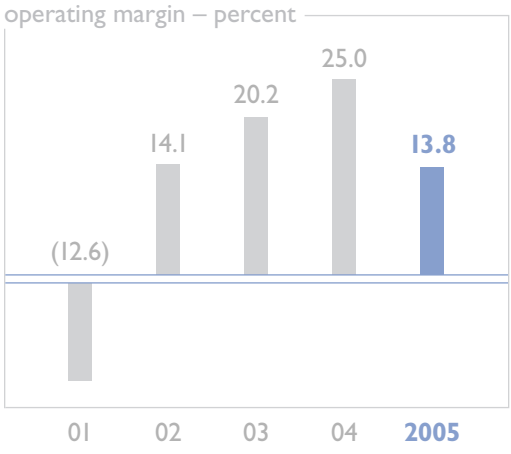
Internal Efficiencies

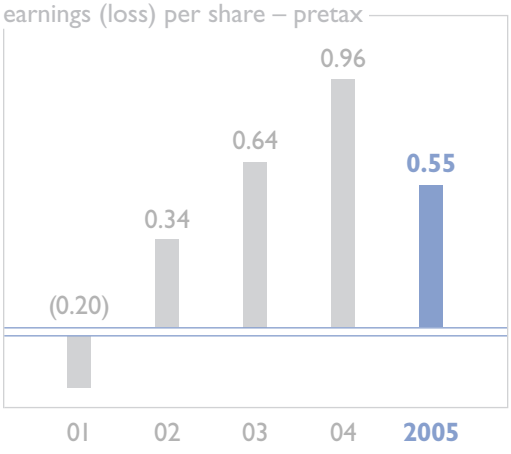
Possis' focus on Continuous Improvement and lean manufacturing assures its recognition and leadership as a best-in-class medical technology manufacturer. Through waste elimination and strategic vendor alliances we strengthen and grow our business to better serve our stakeholders.

"Thrombus complicates coronary interventions and is a predictor of poor patient outcomes. The AngioJet Thrombectomy System is well established as the device of choice for treating patients with larger thrombus. I've also found it to be very effective at removing thrombus and establishing flow to the coronary arteries before performing aggressive procedures such as stent placement. I consider this application of AngioJet to be good practice in appropriately selected patients."

Issam Moussa, MD
Associate Professor of Clinical Medicine,
Co-Director of Endovascular Services at the Center
for Interventional Vascular Therapy
Columbia University Medical Center




operating margin – percent
(12.6)
14.1
20.2
25.0
13.8
01
02
03
04
2005


earnings (loss) per share – pretax
(0.20)
0.34
0.64
0.96
0.55
01
02
03
04
2005

Powerful growth potential

Emerging markets and new applications

In the U.S., one million people undergo percutaneous treatment for coronary disease each year. That keeps AngioJet catheters in high demand among interventional cardiologists. Our coronary catheter line, including the soon-to-be released Spiroflex™-VG catheter, also holds promise for the treatment of blocked saphenous vein grafts (SVG), the large leg veins routinely used in coronary bypass surgeries.

What's the next technology leap at Possis? Our next-generation drive unit: the AngioJet Ultra Console, planned for launch in 2006. This transformative new technology platform will make AngioJet thrombectomy procedures much faster and easier to set-up and operate – a major advantage for hospital staff in emergency procedures.

New therapy needs are emerging too, especially in the peripheral vascular market. Each year, 600,000 people are diagnosed with deep vein thrombosis (DVT) – blood clots in the deep veins of the legs. Of those, 200,000 develop pulmonary embolism (PE) – a potentially fatal clot in the vessels that serve the lungs.

Possis has the financial strength, medical industry experience and technology to develop products and seek indications for therapies that address DVT, PE, and other growing disease states.

Funding more trials

Today, Possis is sponsoring more key patient registries, investigational clinical studies, and after-market studies than ever before. We're also funding an ongoing program for physician-sponsored clinical research. Enrollment for JETSTENT, an important, international multicenter trial now underway, will help document the effectiveness of AngioJet thrombectomy in high-risk cardiac patients. Other investigational studies will evaluate the role of AngioJet thrombectomy in the treatment of deep vein thrombosis. Many more studies are planned or underway.

Gaining ground: combination therapies

We're working closely with many physicians now using combination drug/device therapies as part of their interventional treatments. Our new Power Pulse delivery system incorporates combination therapy that capitalizes on this practice trend, allowing physicians to directly infuse medication into a difficult thrombus before evacuating it with the AngioJet Xpeedior® catheter.

Also, we plan to introduce the GuardDOG® temporary occlusion system in 2006. The GuardDOG system allows physicians to quickly and effectively manage blood flow during interventions. This may be particularly valuable when combined with AngioJet thrombectomy and Power Pulse delivery.

Discovery Channel picks up on Possis

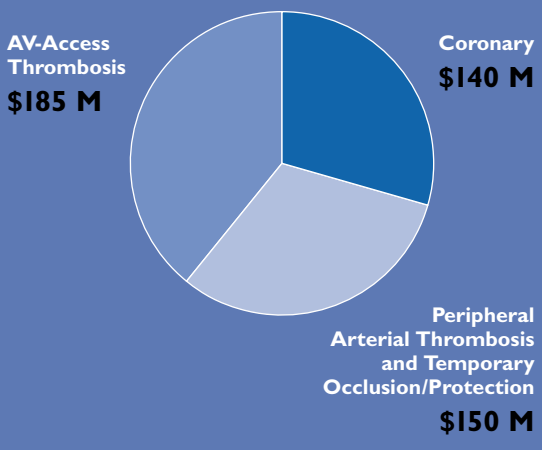
From former President Nixon's much-publicized deep vein thrombosis to journalist David Bloom's death from pulmonary embolism, increased awareness of circulatory disorders has spurred more media coverage of promising medical solutions – including AngioJet technology. In 2005, the Discovery Channel and other national networks broadcast a medical feature on our Power Pulse delivery system. The story profiled a physician endorsing its use and his now-healthy, active patient.

An Aging Population

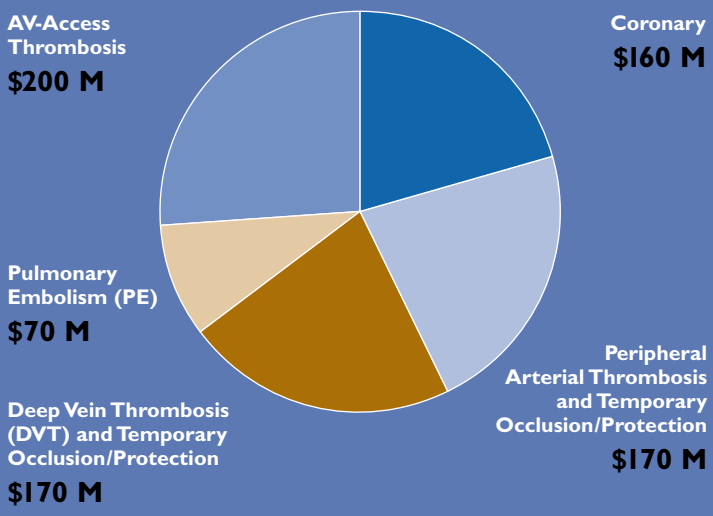
By 2030, the 65 and older population will more than double – to over 200 million in the U.S. and Europe. As more people reach the age when coronary and vascular problems occur, the need for Possis solutions will grow.

U.S. realizable market opportunity

Markets Today
$475 Million – 2006*



Growing Markets
$770 Million – 2009*



*company estimates

Expanding and Penetrating Realizable Markets

Clinical Science

Exploratory

Neurovascular

Pulmonary Embolism IDE Trial

Emerging

Deep Vein Thrombosis IDE Trial

SVG Clinical Study

Ongoing/New

ADVENTT Study

JETSTENT Study

Real-World Coronary Registries

Completed

Publications and CME Courses

AiMI

VeGAS
VeGAS II

Market Expansion

Pulmonary

Deep Vein Thrombosis

Coronary Thrombosis

Peripheral Arterial Thrombosis

AV Access Thrombosis

- AngioJet® System console/pump set
- XMI®
- XMI®-RX
- Xpeedior®
- AVX®
- XVG®
- XMI®-RX+
- Power Pulse™
- DVX™

Current Products

Recent Introductions

Possis Products

Neurovascular

Embolism

Market Penetration

- Spiroflex™
- GuardDOG® .035"
- GuardDOG® .014"
- Spiroflex™-VG
- AngioJet® Ultra System

New Releases in FY2006

Glossary

AngioJet®
Brand name for the Possis Medical family of thrombus-removal products.

Angioplasty
Using a temporarily inflated balloon on a catheter to widen a stenosed or occluded blood vessel (in coronary arteries, procedure is referred to as percutaneous translumenal coronary angioplasty, or PTCA).

Atherectomy
Plaque removal.

Cardiac
Pertaining to the heart.

Catheter
A medical device consisting of a thin, flexible tube, usually applied inside a blood vessel.

Coronary
Relating to the vessels of the heart.

Distal
Further away from the heart, or from the point of origin. (The opposite of "distal" is "proximal.")

Embolus
A thrombus that has migrated from its original site in the body.

Investigational Device Exemption (IDE)
An application to the FDA to conduct clinical trials of an investigational device.

Ischemic
Lack of oxygen (ischemia).

Mechanical Thrombectomy
A treatment that uses an endovascular device to fragment, disperse, and/or evacuate blood clots in a blood vessel.

Myocardial Infarction
A heart attack, caused by sudden blockage or loss of blood flow.

Occlusion
A blockage.

Peripheral
Situated nearer the periphery, pertaining to arms and legs.

Percutaneous
Passage through the skin.

Pre-Market Approval (PMA)
An FDA approval designating the device to be "safe and effective" for its label-indicated use(s).

Restenosis
Significant recurrence of narrowing after treatment.

Rheolytic™
Possis-trademarked term for fluid-based clot removal.

Saphenous Vein / Saphenous Vein Graft
A large vein removed from the leg and used to construct a surgical bypass around an occluded coronary artery.

Stent
Expandable wire tube, used to widen and support a blocked or narrowed blood vessel.

Thrombectomy
Medical procedure for removing a blood clot.

Thrombus
A blood clot.

Venous
Pertaining to veins.

Robert G. Dutcher
Chairman, President and Chief Executive Officer

"...our strength and resilience as a company allowed us to...make significant progress in preparing for future growth."

to our Shareholders

The disappointing results from our AngioJet® in Myocardial Infarction (AiMI) clinical study negatively affected our coronary customer order patterns and made 2005 a challenging year for Possis Medical. I am proud to say, however, that our strength and resilience as a company allowed us to return to sequential quarterly growth by the fourth quarter and make significant progress in preparing for future growth.

During this difficult time, we never wavered in our firm belief that the AngioJet® System is the premier thrombectomy product worldwide and that the clinical value of intravascular thrombectomy remains evident. In spite of the special challenges we faced, Possis achieved significant accomplishments in fiscal 2005, including:

- Stabilizing coronary sales and preparing for future coronary growth
- Increasing peripheral sales by nearly 30 percent
- Growing AV dialysis access sales by 4 percent
- Introducing several new products, and filling our new product pipeline with additional designs staged to enter the market in fiscal 2006 and beyond
- Successfully responding to increasing Sarbanes-Oxley requirements
- Achieving profitability for the 19th consecutive quarter

Annual revenue for fiscal 2005 was $65.1 million, down from $72.4 million in fiscal 2004, but still in line with our second-half guidance. Although pre-tax earnings decreased to $10.1 million from $18.8 million in fiscal 2004, we generated a very healthy operating cash flow of $11.9 million. Net income per diluted share was $0.34, compared to $0.60 in fiscal 2004.

Proven business model fuels growth

Our proven business model and strong balance sheet – cash reserves exceeding $40 million with no long-term debt – allowed us to remain profitable, while investing aggressively in research and development to fuel future growth. The average selling prices for all of our products were stable and our gross profit margin remained robust at 74 percent of sales. We also expanded the footprint of our drive units, which now number over 1500 in the U.S. and 1600 worldwide. We also repurchased shares of the company's stock to offset any dilution from granting employee stock options.

Continued strong support for current AngioJet applications

Throughout the year, Possis continued to build on its proven leadership in three core thrombectomy markets: coronary, peripheral arterial, and AV access.

We believe that AngioJet technology will continue as the treatment of choice for visible thrombus in high-risk cardiac patients. Two separate key patient registries presented at the annual scientific session of the American College of Cardiology (ACC) support this view. The registries document real-world AngioJet use producing favorable patient outcomes, both when AngioJet was used to treat high-risk coronary patients with complicating thrombus, and when AngioJet technology was used prior to stent placement for patients with ST-segment elevation myocardial infarction (STEMI). The presenting physicians were Dr. Charles Simonton of the Sanger Clinic in Charlotte, North Carolina, and Dr. Samin Sharma of Mt. Sinai Medical Center, New York City. At the annual Transcatheter Cardiovascular Therapeutics (TCT) Conference this October, Dr. Simonton presented his updated registry data and Dr. Sharma presented on the positive benefits of AngioJet therapy with direct stenting in a sub-group of patients with large thrombus. Dr. Fadi Matar of Cardioquest in Tampa, Florida, presented his positive experience in employing a combination therapy of AngioJet and an embolic protection filter wire to treat high-risk coronary patients. Also at TCT,

The investment community recognized our leadership position by including Possis stock in the Russell MicroCap Index and also in the S&P Small Cap 600 Index, signifying our contribution to a growing segment of the U.S. equity market.

Dr. Ray Matthews of Good Samaritan Hospital, Los Angeles, presented his patient registry of favorable results with use of AngioJet in rescue percutaneous coronary intervention.

We are advancing other important coronary clinical research as well, including additional real-world registries from major medical centers and a European-based, multi-center prospective randomized trial called JETSTENT: AngioJet Thrombectomy Before Direct Infarct Artery Stenting. This large, randomized trial is expected to demonstrate that AngioJet treatment before direct stenting improves clinical success in heart attack patients presenting with visible thrombus. Such findings will help validate the credibility of existing real-world registries and further demonstrate the outlier nature of the AiMI study results.

I am pleased to report strong sales results for our non-coronary franchises. We achieved nearly 30 percent growth in our peripheral business in 2005, attesting to the depth of real-izable market opportunities in that area, and posted four percent growth in our AV dialysis access business.

Investing in new products for both arterial and venous solutions

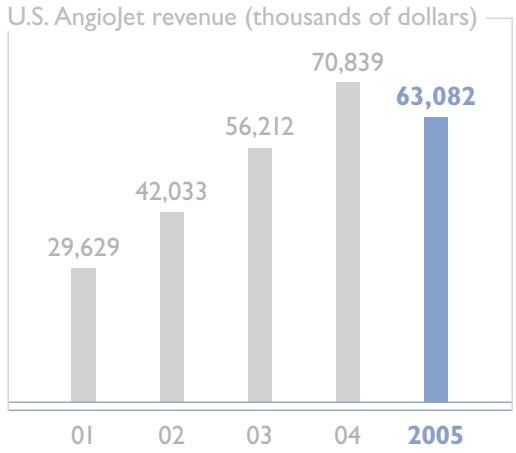
Possis is on the path to growth again, poised to regain momentum and recover stock value. In large part, this is a result of our reinvesting in our business through expanded R&D activities, yielding many exciting new product solutions.

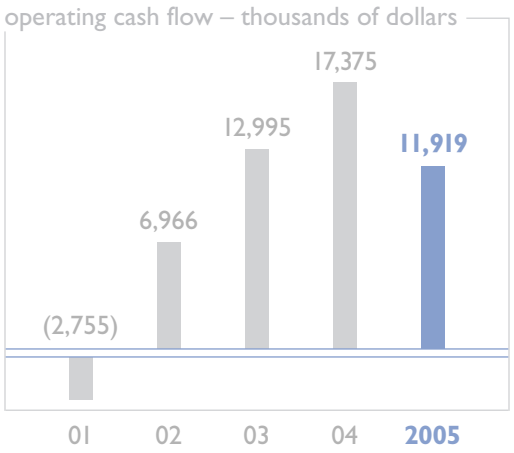
This year we expanded our catheter line with a variety of new products, including the XMI®-RX+ catheter and the DVX™ catheter. The XMI-RX+ catheter, released commercially this July with a peripheral indication, builds on the success of the AngioJet XMI® and XMI®-RX catheters, the only mechanical thrombectomy catheters specifically FDA-approved for use in native coronary arteries and saphenous vein grafts. The latest SpiroFlex™ version incorporates additional valuable features such as a more flexible and kink-resistant shaft. Early customer feedback has been very positive, and we are expecting to proceed with a full market release in fiscal 2006.

Our recently released DVX catheter reflects our close work with peripheral interventionalists, who requested a tool for more effective removal of larger and tougher thrombus in large peripheral vessels. The DVX catheter increases thrombus removal by five times over previous catheter models.

Possis is also making significant progress on our launch of the AngioJet® Ultra Console. In July we filed for FDA approval, which we anticipate by the end of fiscal year 2006. The Ultra Console will be used with our new disposable thrombectomy sets that combine the catheter and pump into one unit, providing "plug-and-go" convenience for hospital staff. This increased ease-of-use will save precious time in emergency procedures, providing an extra measure of assurance and reliability. We are confident that the Ultra Console is the platform for the long-term growth of our AngioJet System business, and a key element in our plan to encourage increasing AngioJet catheter use.

Possis is staying current with the growing practice to use drug/device combination therapies for the treatment of thrombus. One example of this uses the AngioJet System and our Power Pulse™ Delivery Kit to intravascularly deliver a lytic drug to soften tough thrombus, followed by AngioJet thrombectomy to evacuate the thrombus.





Finally, our new GuardDOG® system uses balloon occlusion guidewires to temporarily stop blood flow past the lesion site during interventional procedures. This helps prevent embolic material from moving downstream and blocking smaller vessels, which can cause irreversible tissue damage. GuardDOG can be used with the AngioJet Thrombectomy System and the Power Pulse delivery technique to inject lytic drugs locally to the treatment site, preventing systemic dispersion to maximize effectiveness with a minimal drug dose. We believe this technique has great potential to minimize procedure-related embolization in applications throughout the body. Because it also enhances the performance of our thrombectomy catheters, we believe these devices will significantly increase the clinical value of our core AngioJet therapy. The GuardDOG system is expected to have FDA clearance for peripheral use in the second half of fiscal 2006.

Advancing emerging venous solutions

We see AngioJet technology expanding into broader applications and new markets. There are early signs that it may prove to be an important treatment for deep vein thrombosis (DVT), especially in patients presenting with acute symptoms in the upper legs.

The peripheral interventional community's growing practice of applying AngioJet technology to the treatment of DVT, while currently off-label, underscores the large market potential on the venous side of our business. Circulatory disease is affecting increasing numbers of our aging population and those living with diabetes and obesity. Today, deep-vein thrombosis (DVT) and pulmonary embolism (PE), collectively known as venous thromboembolism (VTE), amount to a public health crisis: in the U.S., more people die each year from VTE than from car accidents, breast cancer, or AIDS.

In November 2004, Possis supported Albert Einstein College of Medicine and Montefiore Medical Center located in New York City to produce a continuing medical education (CME) opportunity named "Aggressive Management of Deep Vein Thrombosis with Description of the Power Pulse Technique." In addition, in February 2005, Possis partnered with Genentech, Inc. to support a national Combination Therapy Summit, during which AngioJet therapy combined with a lytic drug was discussed and found to be very effective. The results were provided as a CME opportunity in the April 2005 Supplement to *Endovascular Today*.

Based on the potential for successful AngioJet System use in treating VTE as supported in the CME activities noted above, we will continue our expansion into DVT and PE markets, building a suite of therapeutic tools for use by peripheral interventionalists in the complex cases they encounter in daily practice. Initial results from the ADVENTT study (Accelerated Deep Venous Thrombectomy and Thrombolysis), sponsored by principal investigator Dr. Ziv Haskal of the College of Physicians & Surgeons at Columbia University, will be available in fiscal 2006, and will help define AngioJet use in treating DVT. We plan a new IDE clinical trial of AngioJet in DVT to begin in fiscal 2006, and also are working with European clinicians to analyze and publish results from a registry of PE patients.

Expanding reimbursement to drive peripheral growth

By January 2006, we expect the American Medical Association to publish new CPT (Current Procedural Terminology) codes allowing physician reimbursement for peripheral thrombectomy procedures (arterial and venous), a milestone that will facilitate physicians offering AngioJet thrombectomy to their patients with peripheral thrombus.

Neurovascular markets promise long-term growth

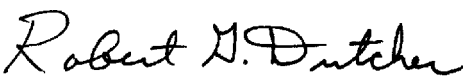
In the neurovascular market, AngioJet technology holds possible long-term promise especially as a treatment therapy for people suffering from ischemic cerebrovascular disease (stroke). We are confident that there will be opportunities to link our technology with existing neurointerventional technologies such as drug treatments and embolic protection.

Positioned for growth in 2006

I have been impressed by the show of confidence from so many of our shareholders, employees, and partners this year. Their belief in the enduring value of our solutions allowed us to not only achieve our goals for the last half of fiscal 2005, but to lay a solid foundation for growth in fiscal year 2006 and beyond. Most importantly, Possis Medical has now helped to save more than 250,000 lives and limbs.

We believe 2006 will be an exciting year with new product introductions, clinical study initiatives, and a return to growth. Thank you for standing by us this year. The best days for Possis Medical are directly ahead.

Sincerely,



Robert G. Dutcher
Chairman, President and Chief Executive Officer

Management's Discussion and Analysis of Financial Condition and Results of Operation

Forward-Looking Statements

We make statements in this Form 10-K that are "forward-looking" and that may not be achieved. You can identify most of these statements by the use of words such as "anticipate," "believe," "could," "estimate," "expect," "forecast," "intend," "may," "plan," "possible," "project," "should," "will," and similar words or expressions. We make forward-looking statements related to our ability to increase sales of disposable product and capital equipment in the face of new product introductions from competitors; our ability to obtain additional regulatory approvals on a timely basis; our ability to obtain regulatory clearance in new foreign markets; the responses of customer to our marketing strategies; our ability to retain and motivate skilled employees especially sales positions; our ability to expand our sales force; the valuation of the Company's deferred tax asset allowance; our future revenue, earnings, earnings per share and expense levels; our future equity financing needs; and our ability to develop new products and enhance existing ones. These forward-looking statements are based on our current expectations and assumptions and entail various risks and uncertainties that could cause actual results to differ materially from those expressed in the forward-looking statements. Factors that may effect the achievement of these statements include:

• ***Because we derive virtually all of our revenue from a single product line, factors affecting that product line will adversely effect our overall results.*** We have focused our resources on the continued development and refinement of our AngioJet System. If we fail to obtain additional regulatory approvals, a new competitor emerges, or the medical community rejects the use of the AngioJet System for multiple purposes, our business, financial condition and results of operations would be materially and adversely affected.

• ***Although we attempt to establish the clinical value of our products with clinical studies, adverse results from those studies have had, and could have in the future, a significantly adverse impact on our business.*** In order to support regulatory filings related to new applications for our products, and to encourage greater use of our products in existing applications, we periodically sponsor clinical studies. The studies are normally designed to be independent and not influenced by the sponsor. If the data from an independent study indicates or implies that our products are ineffective, or less effective than anticipated, our business would likely be negatively affected. For example, we sponsored a three year study on the use of our AngioJet System in treating myocardial infarct where visible thrombosis was not required that ended in the summer of 2004. When the study did not indicate that the AngioJet had a positive impact on final infarct size, the marketplace began questioning the value of our system generally, particularly in heart treatment. The negative publicity from these results significantly impacted our results for the 2005 fiscal year. If future studies generated similar results, our operations would be further negatively impacted.

• ***Because our products are subject to extensive governmental regulation, we might not be able to pursue opportunities rapidly or effectively and failure to comply with regulatory requirements could subject us to fines penalties and prosecution.*** Our products and manufacturing activities are subject to extensive and rigorous federal and state regulation in the United States and various regulatory requirements in other countries. Current United States Food and Drug Administration (FDA) enforcement policy strictly prohibits the marketing of approved medical devices for unapproved uses. Therefore, even if our products receive regulatory approval, regulators may significantly limit the indications for which our products may be marketed. In addition, the process of obtaining and maintaining required regulatory approvals can be lengthy and expensive, and the outcome of the process can be uncertain. Moreover, regulatory approvals may be withdrawn if we fail to comply with regulatory standards or if unforeseen problems arise following the initial marketing of a product. Additionally, we are required to adhere to Quality System Regulations promulgated by the FDA relating to product design, development, manufacturing, servicing, testing and documentation. Failure to comply with applicable Quality System Regulations or other regulatory requirements may result in fines, delays or suspensions of approvals, injunctions against further distribution of our products, seizures or recalls of products, operating restrictions, criminal prosecutions or other sanctions, in addition to adverse publicity. The adoption of new regulations or changes in existing regulations could prevent us from obtaining, or affect the timing of, future regulatory approvals and could adversely affect the marketing of our existing products. We cannot assure you that we will be able to obtain necessary regulatory approvals on a timely basis, if at all. Delays in our receipt of or failure to receive regulatory approvals, the loss of previously received approvals or our failure to comply with regulatory requirements would have a material adverse effect on our business, financial condition and results of operations.

• ***Our manufacturing would be interrupted if we were unable to use our manufacturing facility.*** We manufacture all of our AngioJet System products at our manufacturing facility in Minneapolis, Minnesota. If this facility was to be destroyed, shut down or unable to be used for its intended purpose, or if the specialized manufacturing equipment we maintain at the office damaged, we would not be able to manufacture the AngioJet System products until a replacement facility and equipment was found, and the replacement facility and process revalidated. The replacement of the manufacturing facility and equipment and the revalidation of the facilities could take several months before manufacturing operations could restart. The delay engendered by, and the potential cost incurred in, these steps would have a material adverse effect on our business, financial condition and results of operations.

• ***We may not be able to enhance our products rapidly enough to keep pace with advances in the medical products industry.*** The medical products market is characterized by rapidly evolving technology. Our future success depends on our ability to keep pace with advancing technology from competitors and other innovators. Potential competitors have developed or are in the process of developing technologies that are, or in the future may be, the basis for competitive products, some of which may accomplish desired therapeutic effects through entirely different methods than the products we are developing. We believe our AngioJet System will face intense competition from a variety of treatments for the removal of blood clots, including clot-dissolving (thrombolytic) drug therapies, surgical intervention, balloon embolectomy, embolic protection devices, mechanical and laser thrombectomy devices, ultrasound ablators, and other thrombectomy devices based on waterjet systems that are currently being developed by other companies.

• ***Larger companies in the medical products industry may be in a better position to compete for our customers.*** Many of the companies developing competing devices have substantially greater capital and substantially greater resources for and experience in research and development, regulatory matters, manufacturing and marketing than we have. These companies will be serious competitors for us and may succeed in developing products that are more effective and/or less costly than the AngioJet System. Furthermore, these companies may be more successful than we are in manufacturing and marketing their products. Our competitors or others may develop technologies, products or procedures that are more effective than any we are developing or that may render our technology and products obsolete or noncompetitive. The advent of new devices, procedures or new pharmaceutical agents could hinder our ability to compete effectively and could have a material adverse effect on our business, financial condition and results of operations.

• ***We may not be able to adequately secure our position through intellectual property protection.*** Our success depends and will continue to depend in part on our ability to maintain patent protection for our products and processes, to preserve our trade secrets and to operate without infringing the proprietary rights of third parties. We attempt to protect our technology by filing patent applications for technology that we consider important to the development of our business, among other measures described below. Claims relating to medical technology patents involve complex legal and factual questions. Therefore, their outcomes are highly uncertain. We cannot assure you that our pending applications will result in patents being issued to us or that either our new patents or our existing patents will give us a competitive advantage. Moreover, our competitors may design around any patents issued to us, third parties may receive patent protection on their own waterjet devices, and others may hold or receive patents containing claims that may cover products developed by us. We require all our employees to execute non-disclosure agreements when they are first employed. We cannot assure you, however, that these non-disclosure agreements and other safeguards will protect our proprietary information and know-how, or that they will provide us adequate remedies in the event of unauthorized use or disclosure of confidential information. We also cannot assure you that others will be unable to develop such information independently.

• ***The intellectual property litigation to which we might be required to resort to protect our products could be costly and unfavorable results could damage our business.*** The medical device industry has seen much litigation with respect to patent and other intellectual property rights. Litigation may be necessary for us to enforce our patents, to protect our trade secrets and know-how, to defend against claimed infringement of others' rights or to determine the ownership, scope or validity of the proprietary rights of Possis Medical, Inc. and others. However, litigation also could be extremely costly to us and could divert our resources and efforts away from our products and day-to-day business matters. If the litigation had an adverse outcome, it could subject us to substantial liabilities to third parties, require us to seek licenses from third parties and prevent us from manufacturing, selling or using our products. Any of these results could have a material adverse effect on our business, financial condition and results of operations.

• ***Many of our sales are subject to reimbursement by third party agencies or private insurers of agencies and changes in eligibility or rates of reimbursement could adversely affect our business.*** Health care providers (such as hospitals and physicians) that purchase medical devices like the AngioJet System for the treatment of patients generally rely on third-party payors like Medicare, Medicaid and private insurance plans to reimburse all or part of the costs associated with the health care services they provide. In certain foreign markets, the pricing of and profits generated by health care products are subject to government control. In some states, Medicare and Medicaid payors reimburse hospitals for inpatient medical procedures at a pre-determined rate based on diagnosis-related groups. Currently, we do not believe that U.S. reimbursement rates are a material impediment to adoption of our therapy. If these rates do not include, and third-party payors do not otherwise provide, adequate reimbursement to health care providers for the cost of our products, our products will not gain wide market acceptance and our financial results will suffer. The market for our products also could be adversely affected by future legislation to reform the nation's health care system or by changes in industry practices regarding reimbursement. We cannot assure you that the reimbursement rates of third-party payors will allow us to price our products at levels sufficient to realize an appropriate return on our investment in product development..

• ***We may not be able to retain all of our key personnel.*** We depend greatly on a limited number of key management and technical personnel. Moreover, because of the highly technical nature of our business, our ability to continue our technological developments and to market our products – and thereby develop a competitive edge in the marketplace – depends in large part on our ability to attract and retain qualified technical and key management personnel. Competition for qualified personnel is intense, and we cannot assure you that we will be able to attract and retain the individuals we need. The loss of key personnel, or our inability to hire or retain qualified personnel, could have a material adverse effect on our business, financial condition and results of operations.

• ***We may be subject to product liability claims, for which insurance coverage may be insufficient.*** The manufacture and sale of our products may subject us to product liability claims. The United States Supreme Court has held that, despite a company's compliance with FDA regulations, it may not be shielded from common-law negligent-design claims or manufacturing and labeling claims based on state laws. Product liability insurance is expensive and in the future may not be available on acceptable terms, if at all. We cannot assure you that the coverage limits of our product liability insurance policies will be adequate if a product liability claim is brought against us. A successful claim or series of claims against us that exceeds our insurance coverage could have a material adverse effect on our business, financial condition and results of operations. Moreover, whether or not successful, product liability litigation would likely divert the attention of our key personnel and could adversely affect our reputation and the marketability of our technology and products. Consequently, any product liability litigation could have a material adverse effect on our business, financial condition and results of operations.

• ***The protections we have adopted may cause takeover offers to be decided by the Board rather than our shareholders.*** Of the 100 million shares of capital stock authorized by our amended and restated articles of incorporation, 79 million shares are undesignated. Our Board of Directors may issue the undesignated shares on terms and with the rights, preferences and designations determined by the Board without shareholder action. In addition, we have adopted a shareholder rights plan that provides for the exercise of preferred share purchase rights when a person becomes the beneficial owner of 15% or more of our outstanding common stock (subject to certain exceptions). We also are subject to provisions of the Minnesota Business Corporation Act that limit the voting rights of shares acquired in specified types of acquisitions and that restrict specified types of business combinations. The existence or issuance of "blank check" stock, the existence of our shareholder rights plan and the effect of anti-takeover provisions under Minnesota law, individually or in the aggregate, may discourage potential takeover attempts and delay, deter or prevent a change in control. They also may make the removal of management more difficult, which could deprive our shareholders of opportunities to sell their shares at prices higher than prevailing market prices.

• ***We depend on single-source suppliers.*** We depend on single-source suppliers for some of the raw materials used in the manufacture of our products. If we cannot obtain key raw materials from our suppliers, we cannot assure you that the materials will be available from other suppliers, that other suppliers will agree to supply the materials to us, or that our use of the other suppliers would be approved by the FDA. Although we believe our supply of raw materials currently is adequate for the needs of our business, we cannot assure you that new sources of supply will be available when needed. Any interruption in our supply of raw materials could have a material adverse effect on our ability to manufacture our products until a new source of supply is located and, therefore, could have a material adverse effect on our business, financial condition and results of operations.

General

We develop, manufacture, and market medical devices for mechanical thrombectomy in native coronary arteries and coronary bypass grafts, leg arteries and in kidney dialysis access grafts. Our primary product, the AngioJet Rheolytic Thrombectomy System (AngioJet System) uses miniaturized waterjet technology, which enables interventional cardiologists, interventional radiologists, vascular surgeons, and other specialists to remove blood clots throughout the body.

The proprietary AngioJet System consists of a drive unit (capital equipment), a disposable pump set that delivers pressurized saline to a catheter, and a variety of disposable catheters that are specifically designed for particular clinical indications. The AngioJet coronary catheter is a Class III medical device and is marketed in the U.S. under an approved PMA. The AngioJet AV-access and peripheral arterial catheters are Class II devices and are marketed in the U.S. under cleared 510(k) submissions.

We expect U.S. AngioJet System sales to grow primarily through obtaining additional FDA approved product uses, introduction of new catheter models for existing indications, introduction of AngioJet System-related products, more face-time selling to existing accounts, peer-to-peer selling, and the publication of clinical performance and cost-effectiveness data.

Critical Accounting Policies

Our consolidated financial statements include accounts of Possis Medical, Inc. and all wholly-owned subsidiaries. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions in certain circumstances that affect amounts reported in

the accompanying consolidated financial statements and related footnotes. In preparing these financial statements, we have made our best estimates and applied our best judgment of certain amounts included in the financial statements, giving due consideration to materiality. Our most critical accounting policies are those described below. Application of these accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates.

Revenue Recognition Revenues associated with AngioJet drive units that are maintained at customer locations are recognized, and title and risk of loss on those drive units is transferred to the customer when we receive a valid purchase order from the customer. Revenue is not recognized for AngioJet drive units that are maintained at customer locations as evaluation drive units. The Company does not lease AngioJet drive units. Revenues associated with products that are shipped to customers from our facilities are recognized, and title and risk of loss are transferred to the customer, when a valid purchase order is received and the products are received at the customer's location. Provisions for returns are recorded in the same period the related revenues are recognized. Revenue recognition for drive unit extended warranties is amortized on a straight-line basis over the life of the warranty period that is generally twelve months.

Allowance for Returns Trade receivable, are reduced by an allowance for items that may be returned in the future. The allowance requires us to make estimates at the time the account receivable is recorded concerning the likelihood of returns. The estimate is based upon our historical product return experience, customer complaint rates, information received from our customers and other assumptions that we believe are reasonable under the circumstances. We review, on a quarterly basis, the actual returns for the previous quarter and evaluate the adequacy of the allowance for future returns. Although we believe the amount of the allowance for returns is appropriate, actual returns incurred could differ from our original estimate, requiring adjustments to the allowance.

Allowance for Doubtful Accounts Substantially all of our trade receivables are due from health care facilities located in the United States. The estimated allowance for doubtful accounts is based upon the age of the outstanding receivables and the payment history and creditworthiness of each customer. We evaluate the adequacy of the allowance for doubtful accounts on a quarterly basis. Although we believe the amount of the allowance for doubtful accounts is appropriate, nonpayment of accounts could differ from our original estimate, requiring adjustments to the allowance.

Inventories We value inventories at the lower of cost or market. In order to determine the market value of inventory, on a quarterly basis, we assess the inventory quantities on hand to estimate future usage and sales and, if necessary, set up an obsolescence reserve for inventory deemed excess or obsolete to estimate market value. Although we believe the amount of the reserve for inventory obsolescence is appropriate, the amount of our inventory that becomes obsolete may differ from our original estimate, requiring adjustments to the reserve.

Warranty Reserve We provide a one-year limited warranty on our AngioJet System drive unit and a limited warranty on AngioJet System disposable products. We establish a warranty reserve at the time products are sold that is based upon historical frequency of claims relating to our products and the cost to replace disposable products and to repair drive units under warranty. We evaluate the adequacy of the warranty reserve on a quarterly basis. Although we believe the amount of the warranty reserve is appropriate, given our historical experience, if actual claims incurred differ from the original estimate, we would be required to adjust the reserve.

Deferred Tax Asset Valuation Allowance We became profitable starting in the third quarter of fiscal 2001 and have remained profitable since that time. We increased our deferred tax asset by an additional $466,000 in fiscal 2005, an additional $2,578,000 in fiscal 2004 and an additional $2,777,000 in fiscal 2003. These increases were related to tax benefits from disqualified stock options that are recorded directly in the Consolidated Statement of Changes in Shareholders' Equity. Due to the previous three full years' operating results projected forward through the carry-forward period, we reduced our valuation allowance on the deferred tax asset by $9,778,000 during the fourth quarter of fiscal 2003. The remaining valuation allowance of $690,000 of the deferred tax asset relate to the research and development tax credits and may not be realizable.

In our Selected Financial Data, Management's Discussion and Analysis, and Notes to Consolidated Financial Statements, the Company makes reference to a non-GAAP (general accepted accounting principles) financial measure – income per common share before income taxes. The Company believes that this non-GAAP financial measure is useful to investors because it provides investors with another measure to consider, in conjunction with the GAAP results that may be helpful to meaningfully compare the Company's operating performance. It is especially useful for fiscal 2003 and 2002, when the Company had an unusual tax benefit due to the reduction of the tax valuation allowance. In each case that the Company makes reference to a non-GAAP financial measure, the Company also provides a reconciliation to the comparable GAAP financial measures.

Results of Operations

Fiscal Years Ended July 31, 2005, 2004 and 2003 Total product sales for fiscal 2005 decreased $7,367,000 or 10% to $65,053,000, compared to $72,420,000 in fiscal 2004. Total product sales for 2004 increased $14,992,000, or 26%, to $72,420,000, compared to $57,428,000 in fiscal 2003.

We recorded net income of $6,155,000, or $0.34 per diluted share, in fiscal 2005, compared to net income of $11,729,000, or $0.60 per diluted share, in fiscal 2004 and net income of $16,568,000, or $0.88 per diluted share, in fiscal 2003. In fiscal 2003, we recorded a benefit for income taxes in the amount of $9,060,000 due to the reduction of the deferred tax asset valuation allowance and changes in temporary differences. This income tax benefit offset our income tax provision of $4,505,000 and resulted in a net income tax benefit of $4,555,000. The reduction of the deferred tax asset valuation allowance of $9,060,000 increased net income per share by $0.48 per diluted share.

Operating Expenses

The following table compares dollars (in thousands) and percentage changes in the Statements of Income between 2005 and 2004 and between 2004 and 2003.

			INCREASE (DECREASE)				INCREASE (DECREASE)	
	2005	2004	DOLLARS	PERCENT	2004	2003	DOLLARS	PERCENT
Product Sales	**$65,053**	$72,420	$(7,367)	(10.2)%	$72,420	$57,428	$ 14,992	26.1%
Operating Expenses								
Cost of medical products	**16,967**	17,320	(353)	(2.0)%	17,320	14,510	2,810	19.4%
Selling, general and administrative	**28,625**	27,984	641	2.3%	27,984	23,808	4,176	17.5%
Research and development	**10,502**	9,033	1,469	16.3%	9,033	7,503	1,530	20.4%
Total	**56,094**	54,337	1,757	3.2%	54,337	45,821	8,516	18.6%
Operating Income	**8,959**	18,083	(9,124)	(50.5)%	18,083	11,607	6,476	55.8%
Other Income	**1,160**	680	480	70.6%	680	406	274	67.5%
Income before income taxes	**10,119**	18,763	(8,644)	(46.1)%	18,763	12,013	6,750	56.2%
Income taxes (provision) benefit	**(3,964)**	(7,034)	3,070	(43.6)%	(7,034)	4,555	(11,589)	(254.4)%
Net income	**$ 6,155**	$11,729	$(5,574)	(47.5)%	$11,729	$16,568	$ (4,839)	(29.2)%

The following table shows the Statements of Income as a percentage of product sales for 2005, 2004 and 2003.

	2005	2004	2003
Product Sales	**100.0%**	100.0%	100.0%
Operating Expenses			
Cost of medical products	**26.1%**	23.9%	25.3%
Selling, general and administrative	**44.0%**	38.6%	41.5%
Research and development	**16.1%**	12.5%	13.1%
Total	**86.2%**	75.0%	79.8%
Operating Income	**13.8%**	25.0%	20.2%
Other Income	**1.8%**	0.9%	0.7%
Income before income taxes	**15.6%**	25.9%	20.9%
Income taxes (provision) benefit	**(6.1)%**	(9.7)%	7.9%
Net income	**9.5%**	16.2%	28.9%

Revenue

U.S. product sales for fiscal 2005 decreased $7,751,000, or 11%, to $63,116,000 compared to $70,867,000 in fiscal 2004. U.S. product sales for fiscal 2004 increased $14,655,000, or 26%, to $70,867,000 compared to $56,212,000 in fiscal 2003. The main factor in the revenue decrease during fiscal 2005 is the negative impact from the results of the AiMI post-marketing study. Our revenue increased during fiscal 2004 because of U.S. marketing of the AngioJet System for additional application and because of the expansion of our direct sales force.

As of July 31, 2005, we had a total of 1,509 domestic AngioJet System drive units in the field, compared to 1,317 and 1,062 at the end of the previous two fiscal years. During fiscal 2005, we sold approximately 47,700 catheters and pump sets versus approximately 52,100 in fiscal 2004 and 42,500 in fiscal 2003. This represents an 8% decrease in fiscal 2005 and a 23% increase in fiscal 2004 in unit catheter sales from the previous years. During the fiscal years ended July 31, 2005, 2004 and 2003, we sold 215 AngioJet System drive units in fiscal 2005, 258 drive units in fiscal 2004 and 212 drive units in fiscal 2003. The increasing AngioJet System drive unit sales resulted from drive unit promotions with several of our group purchasing organizations in fiscal 2005 and 2004, continuing customer acceptance of our expanded and improved coronary and peripheral catheter product lines and the expansion of our sales force, but was offset, in 2005, by the negative effects of the AiMI study.

We employ a variety of flexible drive unit sale programs, including outright sale and various evaluation programs. The purchasing cycle for the AngioJet System drive unit varies depending on the customer's budget cycle and is normally approximately six months from the beginning of the marketing cycle. We have signed contracts with eight purchasing groups

to accelerate orders and increase market penetration. These purchasing groups evaluate and screen new medical technologies, and negotiate pre-determined discounts on behalf of their members. By working with these purchasing groups, we are placed on their recommended vendor list, and in some instances receive marketing support from the purchasing group supported by a marketing fee that we pay. These discounts and marketing fees have been offset by the increase in our sales to the member hospitals of the purchasing group. There has been no material negative effect on our margins due to these discounts and marketing fees. The discounts reduce gross revenue on the income statement, while marketing fees are included in selling, general and administrative expense on the income statement.

Foreign sales of the AngioJet System were $1,938,000 in fiscal 2005, $1,553,000 in fiscal 2004 and $1,215,000 in fiscal 2003. The increase in sales is primarily due to the introduction of the XMI RX, XMI and XVG catheters and the increase in drive unit sales in the European market. In addition, we hired an outside consultant to expand product penetration in Germany in fiscal 2005. Limited foreign sales are primarily due to cost constraints in overseas markets.

Cost of Medical Products Cost of medical products decreased $353,000 to $16,967,000 in fiscal 2005 compared to fiscal 2004. The decrease was primarily due to the reduction in AngioJet System product unit sales offset by higher production overhead on lower units produced combined with an increase in overhead costs. Cost of medical products increased $2,810,000 to $17,320,000 in fiscal 2004 compared to fiscal 2003. The increase was primarily due to the growth in the U.S. AngioJet System product sales.

Gross profit decreased by $7,014,000 to $48,086,000, or 74% of product sales, in fiscal 2005 from $55,100,000, or 76% of product sales in fiscal 2004, but increased $12,182,000 in fiscal 2004 from $42,918,000 or 75% of product sales in fiscal 2003. The decrease in the gross profit margin in fiscal 2005 was primarily due to lower revenue and to a shift to products carrying a lower gross profit margin. The improvement in gross profit margin in fiscal 2004 was driven by higher volumes of XMI RX, XMI, XVG and Xpeedior Plus 120 catheters that carry higher margins than the catheters they replaced. We believe that gross margins as a percent of sales will be in the lower to mid-seventies for fiscal 2006.

Selling, General and Administrative Expenses Selling, general and administrative expense increased $642,000 to $28,625,000, or 44% of product sales, in fiscal 2005 compared to $27,984,000 or 39% of product sales in fiscal 2004. The primary factors for the expense increase fiscal 2005 were the additional expenses associated with the growth in the sales force, increased employee medical benefit costs, increase in Sarbanes-Oxley related professional fees, increase in executive benefit plan expense, increase in depreciation, increase in software expense, and an increase in building rent and operating expenses. These increases were partially offset by a reduction in expenses associated with marketing clinical trials, a reduction of incentives, a decrease in sales materials and sales demos, a decrease in outside services and a decrease in contract labor. The majority of the increase in professional fees related to the implementation of Sarbanes-Oxley requirements.

Selling, general and administrative expense increased $4,175,000 to $27,984,000, or 39% of product sales, in fiscal 2004 from $23,808,000 or 41% of product sales in fiscal 2003. The primary factors for the expense increase for fiscal 2004 were increased sales and marketing expenses related to the expansion of the Company's U.S. direct sales organization for the AngioJet System, increased overall compensation, contract labor and fringe benefits, increased marketing fees for the national purchasing contracts, increased sales demos and sales materials, increased professional fees and outside services and an increase in patent expense. These expenses were partially offset by a reduction in patient enrollment associated with marketing clinical trials and software and computer depreciation.

We expect that the current U.S. sales force will be sufficient to grow sales and service our current customer base for the AngioJet System through fiscal 2006.

Research and Development Expenses Research and development expenses increased $1,469,000 to $10,502,000, or 16% of product sales, in fiscal 2005 compared to $9,033,000, or 12% of product sales in fiscal 2004. The increase was largely due to the timing of expenses incurred for various research and development projects including the new drive unit, an associated project to combine the pump and catheter, DVX peripheral catheter and projects relating to the improvement of the rapid exchange catheter and the distal occlusion guidewires.

Research and development expenses increased $1,530,000 to $9,033,000, or 12% of product sales, in fiscal 2004 compared to $7,503,000 or 13% of product sales in fiscal 2003. The increase was largely due to the timing of expenses incurred for various research and development projects including the new drive unit, an associated project to combine the pump and catheter, and projects relating to the improvement of the rapid exchange catheter, the distal occlusion guidewires and the power pulse spray projects.

We believe that research and development expenses for AngioJet System applications and related products will decrease in fiscal 2006 over fiscal 2005 levels. Research and Development expense levels are dependent upon the continuing development of its current products and investment in the development of new AngioJet System thrombectomy applications and related products including clinical trials.

Interest Income Interest income increased $542,000 to $1,274,000 in fiscal 2005 compared to $732,000 in fiscal 2004, and increased $375,000 in fiscal 2004 from $357,000 in fiscal 2003. The increases are due to the investing of excess cash and cash equivalents in an enhanced cash management portfolio of marketable securities and to the recent interest

rate increases. The Company expects interest income to increase in fiscal 2006 as compared to fiscal 2005 due to positive operating cash flows and an expected interest rate increase.

Loss (Gain) On Sale of Securities Loss on sales of securities was $114,000 in fiscal 2005 and $53,000 in 2004 . Gain on sales of securities was $50,000 in fiscal 2003. The losses in fiscal 2005 and 2004 were due to interest rate increases that reduced the fair market value of the investments in marketable securities. Future gain (loss) on sale of securities is dependent on interest rate fluctuations.

(Provision) Benefit for Income Taxes We recorded a provision for income taxes of $3,964,000, or approximately 39.2% of income before income taxes, for fiscal 2005. The Company recorded a provision for income taxes of $7,034,000 or approximately 37.5% of income before income taxes, for fiscal 2004. In fiscal 2003 the Company recorded a benefit for income taxes of $4,555,000. The benefit for income taxes in fiscal 2003 was due to the reversal of the valuation allowance on our net deferred tax asset .

During fiscal 2005 we determined that the scope of our operations caused us to have nexus in states in which it had not previously filed corporate state income tax returns. We filed the appropriate corporate state income tax returns in these states, including returns for prior years, to obtain the appropriate net operating loss carry-forwards. We expensed an additional $165,000 of corporate state income tax expense relating to the filing of these state corporate income tax returns during fiscal 2005.

We became profitable starting in the third quarter of fiscal 2001 and have maintained profitability since. Prior to the fourth quarter of fiscal 2002, and due to the uncertainty of realizing the value of our deferred tax asset, we had established a valuation allowance equal to 100% of the value of the tax asset, reducing the amount of such asset reflected on our balance sheet to zero . In the fourth quarter of fiscal 2003 and 2002, we reassessed the likelihood that the deferred tax asset would be recovered from future taxable income. Due to the previous three full years' operating results projected forward, the Company reduced its valuation allowance on the deferred tax asset by $9,778,000 and $13,713,000 during the fourth quarter of fiscal 2003 and 2002, respectively. These reductions in the allowance resulted in a tax benefit, which was partially offset by changes in temporary differences.

We increased our deferred tax asset by an additional $466,000 in fiscal 2005, $2,578,000 in fiscal 2004 and $2,777,000 in fiscal 2003, as a result of the tax benefit from exercise of disqualified stock options that are recorded directly in the Consolidated Statement of Changes in Shareholders' Equity. The remaining valuation allowance of $690,000 of the deferred tax asset relate to the research and development tax credits and may not be realizable.

Effects of Inflation Inflation and changes in prices, had very little effect on our net revenue and net income from operations for fiscal 2005.

Liquidity and Capital Resources

Our cash, cash equivalents and marketable securities totaled approximately $44,427,000 at July 31, 2005 compared to $48,171,000 at July 31, 2004. The primary factor in the decrease was cash used in financing activities to repurchase company stock.

During fiscal 2005, we generated $11,919,000 of cash from operating activities, which resulted primarily from $6,155,000 net income, depreciation of $2,341,000, a decrease in deferred tax assets of $3,374,000, stock compensation expense of $159,000 and a decrease in accounts receivable of $1,957,000. These sources of cash from operations were partially offset by cash used to fund an increase in inventories of $1,021,000, an increase in prepaid expenses and other assets of $424,000, and a decrease in accounts payable and accrued liabilities of $840,000. Depreciation includes company-owned drive units at customer locations, as well as property and equipment. The decrease in the deferred tax asset was due to the utilization of the net operating loss carry-forwards to offset current taxes payable. The $1,957,000 decrease in receivables was due to decrease in revenue in fiscal 2005 as compared to fiscal 2004. Inventory increased as we built additional units to meet the anticipated increase in demand of the AngioJet System that was not realized because of the negative impact of the AiMI post-marketing study results. The decrease in trade accounts payable and accrued liabilities was due to the timing of the payments.

We used $1,368,000 of cash in investing activities during fiscal 2005. This includes the net purchase of marketable securities of $279,000 and the purchase of $1,661,000 of property and equipment.

We used $13,706,000 of cash in financing activities in fiscal 2005, which resulted from the repurchase of 1,133,100 shares of our common stock for $14,961,000, offset by the cash received in connection with the exercise of stock options for $1,256,000.

During fiscal 2004, we generated $17,375,000 of cash from operating activities, which resulted primarily from $11,729,000 net income, depreciation of $1,813,000, a decrease in deferred tax assets of $6,554,000, non-cash stock compensation expense of $142,000, an increase in accounts payable and accrued liabilities of $1,673,000. These cash sources were partially offset by cash used in operations to fund an increase in receivables of $2,266,000, an increase in inventories of $1,800,000 and an increase in prepaid expenses and other assets of $475,000. The increase in trade accounts payable and accrued liabilities was due to the timing of the payments, including an increase in accrued compensation which was paid subsequent to year end. The $2,266,000 increase in receivables was due to increase in revenue in fiscal 2004 as compared to fiscal 2003. Inventory increased due to the increase in demand for the AngioJet System.

We used $15,916,000 of cash used in investing activities in fiscal 2004. This includes a net purchase of $12,708,000 of marketable securities and property and equipment purchases of $3,259,000.

We generated $2,170,000 of cash from financing activities in fiscal 2004, resulting from cash received in connection with the exercise of stock options and warrants of $7,190,000, offset by the repurchase of 243,400 shares of our common stock for $5,020,000 .

During fiscal 2003, we generated $12,995,000 of cash from operating activities, which resulted primarily from $16,568,000 net income, depreciation of $2,085,000, non-cash stock compensation expense of $161,000, an increase in accounts payable and accrued liabilities of $1,781,000. These cash sources were partially offset by an increase in receivables of $2,093,000, an increase in inventories of $697,000 and an increase in deferred tax assets of $4,798,000. The increase in trade accounts payable and accrued liabilities was due to the timing of the payments, an increase in accrued clinical and marketing trials, an increase in accrued outside services and an increase in deferred drive unit warranty revenue. The $2,093,000 increase in receivables was due to increase in revenue in fiscal 2003 as compared to fiscal 2002. Inventory increased due to the increase in demand for the AngioJet System. Deferred tax assets increased due to the reduction of the valuation allowance.

We used $28,658,000 in investing activities in fiscal 2003, including $27,272,000 to purchase marketable securities and $1,428,000 to purchase property and equipment. Net cash provided by financing activities was $1,889,000 in fiscal 2003, consisting of $5,883,000 of cash received upon exercise of stock options and warrants, offset by $3,994,000 used to repurchase of 246,900 shares of our common stock.

Except with respect to lease obligations and purchase obligations, we do not have any substantial commitments for capital expenditure. The following table sets forth contractual obligations at July 31, 2005:

PAYMENTS DUE BY PERIOD	TOTAL	LESS THAN 1 YEAR	1 – 3 YEARS	4 – 5 YEARS	THEREAFTER
Operating Lease Obligations	$2,126,000	$ 417,000	$ 857,000	$ 667,000	$185,000
Purchase Obligations	3,478,000	3,478,000	–	–	–
Other Long-Term Liabilities	1,083,000	271,000	406,000	406,000	–
Total	$6,687,000	$4,166,000	$1,263,000	$1,073,000	$185,000

With over $44 million of cash and marketable securities, we believe our cash on hand and funds from operations will be sufficient to cover both our short-term and long-term operating requirements.

Off-Balance Sheet Arrangements

We do not have any debt or off-balance-sheet financial arrangements.

Outlook

We expect that overall revenue from the AngioJet System, primarily in the United States, will be in the range of $69 million to $74 million in fiscal 2006. We expect that gross margin for fiscal 2006 will be in the low to mid-seventies as a percent of total sales. The Company expects selling, general and administrative expenses to increase in fiscal 2006 due to anticipated growth in revenue. The Company believes that research and development expense for AngioJet System applications and related products will decrease in fiscal 2006 over fiscal 2005 levels. Research and development expense levels are dependent upon the continuing development of its current products and investment in the development of new AngioJet System thrombectomy applications and related products, including clinical trials. Including the impact of stock-based compensation expense, the Company anticipates net income per diluted share of $0.24 to $0.34 for fiscal 2006. The impact of expensing stock-based compensation per FAS No. 123(R) is anticipated to be approximately $0.04 per diluted share for the first quarter and $0.16 per diluted share for fiscal year 2006. FAS No. 123(R) requires all companies to measure compensation expense for all share-based payments (including employee stock options) at fair value and recognize the expense over the related service period. In addition, the Company expects that increasing working capital investments in trade receivables and inventory will be required to support projected growing product sales. The Company expects to repurchase its common stock from time-to-time in open market transactions when it deems appropriate.

Quantitative and Qualitative Disclosures About Market Risk

The Company invests its excess cash in a professionally managed, institutional fixed income portfolio of short duration. The market risk on a diversified portfolio of relatively short duration is minimal, while enhancing returns above money market levels. Loss on sales of securities was $114,000 in fiscal 2005 and $53,000 in 2004. Gain on sales of securities was $50,000 in fiscal 2003. The losses in fiscal 2005 and 2004 were due to interest rate increases that reduced the fair market value of the investments in marketable securities. Future gain (loss) on sale of securities is dependent on interest rate fluctuations.

The product sales for the Company's foreign subsidiary are in U.S. Dollars ("USD"). As of July 31, 2004, the Company's foreign bank accounts were closed.

Consolidated Balance Sheets

As of JULY 31	2005	2004
Assets		
Current Assets:		
Cash and cash equivalents (Note 1)	**$ 5,257,244**	$ 8,411,784
Marketable securities (Note 1)	**39,169,811**	39,759,403
Trade receivables (less allowance for doubtful accounts and returns of $669,000 and $536,000, respectively)	**8,274,839**	10,232,180
Inventories (Note 1)	**5,830,204**	5,389,653
Prepaid expenses and other assets	**1,158,214**	958,616
Deferred tax asset (Note 4)	**1,042,000**	890,000
Total current assets	**60,732,312**	65,641,636
Property and Equipment, net (Note 1)	**4,879,221**	5,073,775
Deferred Tax Asset, net (Note 4)	**12,113,949**	15,103,949
Other Asset (Note 3)	**425,914**	201,341
Total Assets	**$ 78,151,396**	$ 86,020,701
Liabilities and Shareholders' Equity		
Current Liabilities:		
Trade accounts payable	**$ 1,355,402**	$ 1,791,694
Accrued salaries, wages, and commissions	**3,212,525**	4,228,804
Other liabilities	**2,468,669**	2,222,465
Total current liabilities	**7,036,596**	8,242,963
Other Liabilities (Note 3)	**526,914**	160,536
Commitments and Contingencies (Note 8)		
Shareholders' Equity (Note 5)**:**		
Common stock-authorized, 100,000,000 shares of $0.40 par value each; issued and outstanding, 17,326,487 and 18,254,942 shares, respectively	**6,930,595**	7,301,977
Additional paid-in capital	**75,725,188**	88,434,540
Unearned compensation	**(15,000)**	(15,000)
Accumulated other comprehensive loss	**(240,000)**	(136,000)
Retained deficit	**(11,812,897)**	(17,968,315)
Total shareholders' equity	**70,587,886**	77,617,202
Total Liabilities and Shareholders' Equity	**$ 78,151,396**	$ 86,020,701

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

Consolidated Statements of Income and Comprehensive Income

YEARS ENDED JULY 31	2005	2004	2003
Product sales (Note 9)	**$65,053,329**	$72,420,168	$57,427,709
Cost of sales and other expenses:			
Cost of medical products	**16,966,874**	17,320,094	14,510,064
Selling, general and administrative	**28,625,132**	27,983,585	23,808,304
Research and development	**10,501,719**	9,033,207	7,502,763
Total cost of sales and other expenses	**56,093,725**	54,336,886	45,821,131
Operating income	**8,959,604**	18,083,282	11,606,578
Interest income	**1,274,149**	731,809	356,495
(Loss) gain on sale of securities	**(114,401)**	(52,580)	49,687
Income before income taxes	**10,119,352**	18,762,511	12,012,760
Income tax (provision) benefit (Note 4)	**(3,963,934)**	(7,033,790)	4,555,000
Net income	**6,155,418**	11,728,721	16,567,760
Other comprehensive loss, net of tax –			
Unrealized loss on securities	**(104,000)**	(36,000)	(100,000)
Comprehensive income	**$ 6,051,418**	$11,692,721	$16,467,760
Net income per common share:			
Basic	**$ 0.35**	$ 0.65	$ 0.95
Diluted	**$ 0.34**	$ 0.60	$ 0.88
Weighted average number of common shares outstanding:			
Basic	**17,616,072**	17,935,974	17,501,573
Diluted	**18,310,906**	19,565,530	18,889,245

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

Consolidated Statements of Cash Flows

YEARS ENDED JULY 31	2005	2004	2003
Operating Activities:			
Net income	**$ 6,155,418**	$ 11,728,721	$ 16,567,760
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	**2,341,170**	1,813,476	2,084,604
Deferred income taxes	**3,374,000**	6,554,030	(4,798,000)
Stock compensation expense	**159,000**	141,646	160,550
Loss (gain) on sale of securities	**136,405**	52,580	(49,687)
Loss (gain) on disposal of assets	**80,651**	(47,236)	6,226
Decrease (increase) in trade receivables	**1,957,341**	(2,265,786)	(2,093,036)
Increase in inventories	**(1,020,509)**	(1,800,360)	(697,387)
(Increase) decrease in prepaid expenses and other assets	**(424,171)**	(475,000)	32,679
(Decrease) increase in trade accounts payable	**(436,292)**	205,918	323,065
(Decrease) increase in accrued and other liabilities	**(403,697)**	1,466,971	1,458,291
Net cash provided by operating activities	**11,919,316**	17,374,960	12,995,065
Investing Activities:			
Additions to property and equipment	**(1,660,969)**	(3,258,644)	(1,427,781)
Proceeds from sale of fixed assets	**13,660**	49,924	41,211
Proceeds from sale/maturity of marketable securities	**58,943,391**	31,631,026	54,299,309
Purchase of marketable securities	**(58,664,204)**	(44,338,786)	(81,570,845)
Net cash used in investing activities	**(1,368,122)**	(15,916,480)	(28,658,106)
Financing Activities:			
Proceeds from issuance of stock and exercise of options and warrants	**1,255,710**	7,190,378	5,883,234
Repurchase of common stock	**(14,961,444)**	(5,020,016)	(3,993,914)
Net cash (used in) provided by financing activities	**(13,705,734)**	2,170,362	1,889,320
(Decrease) Increase in Cash and Cash Equivalents	**(3,154,540)**	3,628,842	(13,773,721)
Cash and Cash Equivalents at Beginning of Year	**8,411,784**	4,782,942	18,556,663
Cash and Cash Equivalents at End of Year	**$ 5,257,244**	$ 8,411,784	$ 4,782,942
Supplemental Cash Flow Disclosure:			
Disqualified stock options	**$ 466,000**	$ 2,578,000	$ 2,777,000
Cash paid for income taxes	**666,958**	353,876	287,977
Issuance of restricted stock	**36,000**	36,000	36,000
Inventory transferred to fixed assets	**36,958**	12,960	47,951

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

Consolidated Statements of Changes In Shareholders' Equity

	COMMON STOCK						
	NUMBER OF SHARES	AMOUNT	ADDITIONAL PAID-IN CAPITAL	STOCK COMPENSATION	UNREALIZED LOSS ON SECURITIES	RETAINED DEFICIT	TOTAL
Balance at July 31, 2002	17,274,222	$ 6,909,689	$ 79,128,073	$ (18,900)	$ –	$ (46,264,796)	$ 39,754,066
Employee stock purchase plan	25,267	10,107	354,923	–	–	–	365,030
Stock options issued to directors and physicians (Note 5)	–	–	120,650	–	–	–	120,650
Stock options and warrants exercised	703,993	281,597	5,236,607	–	–	–	5,518,204
Disqualified stock options	–	–	2,777,000	–	–	–	2,777,000
Stock grants	2,010	804	35,196	(36,000)	–	–	–
Unearned stock compensation amortization	–	–	–	39,900	–	–	39,900
Unrealized loss on investments	–	–	–	–	(100,000)	–	(100,000)
Stock retired	(1,061)	(424)	(13,799)	–	–	–	(14,223)
Common stock repurchased	(246,900)	(98,760)	(3,895,154)	–	–	–	(3,993,914)
Net income	–	–	–	–	–	16,567,760	16,567,760
Balance at July 31, 2003	17,757,531	7,103,013	83,743,496	(15,000)	(100,000)	(29,697,036)	61,034,473
Employee stock purchase plan	24,814	9,926	367,713	–	–	–	377,639
Stock options issued to directors (Note 5)	–	–	105,646	–	–	–	105,646
Stock options and warrants exercised	714,113	285,644	6,527,095	–	–	–	6,812,739
Disqualified stock options	–	–	2,578,000	–	–	–	2,578,000
Stock grants	1,884	754	32,246	(36,000)	–	–	–
Unearned stock compensation amortization	–	–	–	36,000	–	–	36,000
Unrealized loss on investments	–	–	–	–	(36,000)	–	(36,000)
Common stock repurchased	(243,400)	(97,360)	(4,922,656)	–	–	–	(5,020,016)
Net income	–	–	–	–	–	11,728,721	11,728,721
Balance at July 31, 2004	18,254,942	7,301,977	88,434,540	(15,000)	(136,000)	(17,968,315)	77,617,202
Employee stock purchase plan	**37,580**	**15,032**	**416,007**	**–**	**–**	**–**	**431,039**
Stock options issued to directors (Note 5)	**–**	**–**	**123,000**	**–**	**–**	**–**	**123,000**
Stock options exercised	**164,311**	**65,724**	**758,946**	**–**	**–**	**–**	**824,670**
Disqualified stock options	**–**	**–**	**466,000**	**–**	**–**	**–**	**466,000**
Stock grants	**2,754**	**1,102**	**34,898**	**(36,000)**	**–**	**–**	**–**
Unearned stock compensation amortization	**–**	**–**	**–**	**36,000**	**–**	**–**	**36,000**
Unrealized loss on investments	**–**	**–**	**–**	**–**	**(104,000)**	**–**	**(104,000)**
Common stock repurchased	**(1,133,100)**	**(453,240)**	**(14,508,203)**	**–**	**–**	**–**	**(14,961,443)**
Net income	**–**	**–**	**–**	**–**	**–**	**6,155,418**	**6,155,418**
Balance at July 31, 2005	**17,326,487**	**$6,930,595**	**$ 75,725,188**	**$(15,000)**	**$(240,000)**	**$(11,812,897)**	**$ 70,587,886**

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

Notes to Consolidated Financial Statements

Note 1.

Nature of Business and Summary of Significant Accounting Policies

Nature of Business Possis Medical, Inc. (the "Company") is a developer, manufacturer and marketer of medical devices, operating in one business segment. The Company was incorporated in 1956 and has operated several businesses over the last 48 years. In 1990, the Company decided to focus on medical products and in 1993 changed its name to Possis Medical, Inc. In January 1995, the Company established a 100% owned subsidiary, Possis Medical Europe B.V., in the Netherlands to support international product distribution. The Company received AngioJet Rheolytic Thrombectomy System U.S. marketing approval for use in arterio-venous (AV) access hemodialysis grafts in December 1996, for use in native coronary arteries and coronary bypass grafts in March 1999, and for use in leg arteries in April 2000.

The Company's thrombectomy products utilize new technology, and the production processes and equipment used to manufacture them are unique and have been designed and constructed by Company employees. In addition, the medical device industry is subject to the laws and oversight of the United States Food and Drug Administration as well as non-U.S. regulatory bodies in countries where the Company does business.

Basis of Consolidation The consolidated financial statements include the accounts of Possis Medical, Inc. and its wholly-owned subsidiaries: Possis Holdings, Inc., JEI Liquidation, Inc. ("Jet Edge") and Possis Medical Europe B.V., after elimination of intercompany accounts and transactions.

Use of Estimates The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents The Company considers highly liquid investments with original maturities of three months or less to be cash equivalents.

Marketable Securities During fiscal 2005 and 2004, the Company invested its excess cash and cash equivalents in a professionally managed portfolio of marketable securities. All Company securities in this portfolio as of July 31, 2005 and 2004 are classified as available-for-sale and consist primarily of U.S. government securities and corporate/municipal bonds. These investments are reported at fair value with a net unrealized loss for the years ended July 31, 2005 and 2004 of approximately $104,000 and $36,000, respectively, net of tax effect, which is included in other comprehensive loss as of July 31, 2005 and 2004. The cost of securities sold is based on the specific identification method.

Information regarding the Company's available-for-sale marketable securities as of July 31, 2005 and 2004 is approximately as follows:

JULY 31, 2005	U.S. GOVT. SECURITIES	CORPORATE BONDS	MUNICIPAL BONDS	MUTUAL FUNDS	TOTAL
Cost	**$24,175,000**	**$6,806,000**	**$7,948,000**	**$ 632,000**	**$39,561,000**
Gross unrealized losses	**(222,000)**	**(40,000)**	**(129,000)**	**–**	**(391,000)**
Fair value	**$23,953,000**	**$6,766,000**	**$7,819,000**	**$ 632,000**	**$39,170,000**
JULY 31, 2004					
Cost	$ 21,737,000	$ 8,644,000	$ 5,997,000	$3,598,000	$ 39,976,000
Gross unrealized losses	(152,000)	(16,000)	(49,000)	–	(217,000)
Fair value	$ 21,585,000	$ 8,628,000	$ 5,948,000	$3,598,000	$ 39,759,000

The following information recaps marketable securities for the years ended July 31, 2005 and 2004:

JULY 31, 2005	U.S. GOVT. SECURITIES	CORPORATE BONDS	MUNICIPAL BONDS	MUTUAL FUNDS	TOTAL
Proceeds from sales	**$27,416,000**	**$697,000**	**$1,270,000**	**$29,281,000**	**$58,664,000**
Net gain realized	**$ 40,000**	**$ –**	**$ –**	**$ –**	**$ 40,000**
Net loss realized	**$ 171,000**	**$ (5,000)**	**$ –**	**$ –**	**$ (166,000)**
JULY 31, 2004					
Proceeds from sales	$ 10,510,000	$ 488,000	$ 183,000	$ 20,450,000	$ 31,631,000
Net gain realized	$ 29,000	$ 1,000	$ –	$ –	$ 30,000
Net loss realized	$ (82,000)	$ –	$ –	$ –	$ (82,000)

Inventories Inventories are stated at the lower of cost (on the first-in, first-out basis) or market. Inventory balances at July 31 were as follows:

	2005	2004
Finished goods	**$2,149,599**	$2,018,152
Work-in-process	**1,206,364**	1,260,449
Raw materials	**2,474,241**	2,111,052
	$5,830,204	$5,389,653

Property and Equipment Property is carried at cost and depreciated using the straight-line method over the estimated useful lives of the various assets. Property and equipment balances and corresponding lives at July 31 were as follows:

	2005	2004	LIFE
Leasehold improvements	**$ 2,295,999**	$ 2,189,955	7-10 years
Equipment	**10,329,650**	9,525,117	3-10 years
Assets in construction	**222,467**	526,793	N/A
	12,848,116	12,241,865	
Less accumulated depreciation	**(7,968,895)**	(7,168,090)	
Property and equipment – net	**$ 4,879,221**	$ 5,073,775	

Impairment of Long-Lived Assets Management of the Company periodically reviews the carrying value of property equipment owned by the Company by comparing the carrying value of these assets with their related expected future net cash flows. Should the sum of the related expected future net cash flows be less than the carrying value, management will determine whether an impairment loss should be recognized. An impairment loss would be measured by the amount by which the carrying value of the asset exceeds the fair value of the asset. No impairment losses were recorded during fiscal 2005, 2004 and 2003, respectively.

Income Taxes The Company accounts for income taxes under SFAS No. 109, "Accounting for Income Taxes." Deferred taxes are provided on an asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss or tax credit carryforwards, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the variances between the amounts of assets and liabilities recorded for income tax and financial reporting purposes. Deferred tax assets are reduced by a valuation allowance to reflect the possibility that some portion or all of the deferred tax assets may not be realized.

Derivative Instruments and Hedging Activities All contracts that contain provisions meeting the definition of a derivative also meet the requirements of, and have been designated as, normal purchases or sales. The Company's policy is to not enter into contracts with terms that cannot be designated as normal purchases or sales.

Revenue Recognition Revenues associated with AngioJet drive units that are maintained at customer locations are recognized, and title and risk of loss on those drive units is transferred to the customer when we receive a valid purchase order from the customer. Revenue is not recognized for AngioJet drive units that are maintained at customer locations as evaluation drive units. The Company does not lease AngioJet drive units. Revenues associated with products that are shipped to customers from our facilities are recognized, and title and risk of loss are transferred to the customer, when a valid purchase order is received and the products are received at the customer's location. Provisions for returns are recorded in the same period the related revenues are recognized.

Revenue recognition for drive unit extended warranties is amortized on a straight-line basis over the life of the warranty period that is generally twelve months.

Shipping and Handling The Company recognizes all amounts billed to customers in a sales transaction related to shipping and handling to be classified as product sales. The Company records costs related to shipping and handling in cost of medical products.

Fair Value of Financial Instruments The carrying value of all financial instruments approximates fair value due to the short-term nature of the instruments.

Net Income Per Common Share Net income per common share for fiscal 2005, 2004 and 2003 is computed by dividing net income by the weighted average number of common shares outstanding. Options representing 1,328,814, 41,600, and 228,850, shares of common stock at July 31, 2005, 2004 and 2003, respectively, have been excluded from the computations because their effect is antidilutive.

Reclassifications Certain reclassifications have been made to prior years' financial statements to conform to the current year presentation. Such reclassifications had no effect on net income or shareholders' equity as previously reported.

Accounting for Certain Investments in Debt and Equity Securities In November 2003 and March 2004, the Emerging Issues Task Force (EITF) reached a consensus on EITF Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." The consensus reached requires companies to apply new guidance for evaluating whether an investment is other-than-temporarily impaired and also requires quantitative and qualitative disclosure of debt and equity securities, classified as available-for-sale or held-to-maturity, that are determined to be only temporarily impaired at the balance sheet date. The Company incorporated the required disclosures for investments accounted for under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," as required in the

fourth quarter of fiscal year 2004. In September 2004, the consensus was indefinitely delayed as it relates to the measurement and recognition of impairment losses for all securities in the scope of paragraphs 10-20 of EITF 03-1. The disclosures prescribed by EITF No. 03-1 and guidance related to impairment measurement prior to the issuance of this consensus continue to remain in effect. Adoption is not expected to have a material impact on the Company's consolidated earnings, financial position or cash flows.

Guarantor's Accounting and Disclosure Requirements for Guarantees In November 2002, the FASB issued FASB Interpretation No. ("FIN") 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 clarifies the requirements for a guarantor's accounting for and disclosure of certain guarantees issued and outstanding. The initial recognition and measurement provisions of FIN 45 are applicable to guarantees issued or modified after December 31, 2002. The disclosure requirements of FIN 45 are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of FIN 45 did not have an impact on the Company's financial statement disclosures and did not have an impact on the Company's consolidated balance sheet, statements of income, or cash flows.

Consolidation of Variable Interest In December 2003, the FASB issued FIN 46R, "Consolidation of Variable Interest Entities." FIN 46R provides guidance on the identification of variable interest entities, and the assessment of a company's interests in a variable interest entity to determine whether consolidation is appropriate. FIN 46R requires the consolidation of a variable interest entity by the primary beneficiary if the entity does not effectively disperse risks among the parties involved. FIN 46R applies immediately to variable interest entities created after January 31, 2003 and is effective for periods beginning after March 15, 2004 for existing variable interest entities. The adoption of FIN 46R by the Company did not have an effect on the Company's consolidated balance sheet, statements of income, or cash flows.

Accounting for Asset Retirement Obligations In April 2005, the FASB issued FIN No. 47 to clarify the scope and timing of liability recognition for conditional asset retirement obligations pursuant to SFAS No. 143 – "Accounting for Asset Retirement Obligations." The interpretation requires that a liability be recorded for the fair value of an asset retirement obligation, if the fair value is estimable, even when the obligation is dependent on a future event. FIN No. 47 further clarified that uncertainty surrounding the timing and method of settlement of the obligation should be factored into the measurement of the conditional asset retirement obligation rather than affect whether a liability should be recognized. Implementation is required to be effective no later than the end of fiscal years ending after Dec. 15, 2005. Additionally, FIN No. 47 will permit but not require restatement of interim financial information during any period of adoption. Both recognition of a cumulative change in accounting and disclosure of the liability on a pro forma basis are required for transition purposes. The Company is evaluating the impact of FIN No. 47, however, it is not expected to have a material impact on results of operations or financial position.

Accounting for Stock-Based Compensation In December 2004, the FASB revised Statement supersedes Accounting Principles board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, which resulted in no stock-based employee compensation cost related to stock options if the options granted had an exercise price equal to the market value of the underlying common stock on the date of grant. SFAS No. 123(R) requires recognition of employee services provided in exchange for a share-based payment based on the grant date fair market value. In April 2005, the required effective date of SFAS No. 123(R) was deferred to the fiscal year beginning after June 15, 2005. As of the effective date, this Statement applies to all new awards granted as well as awards modified, repurchased, or cancelled. Additionally, compensation cost for stock-based awards that has not previously been recognized will be recognized as the remaining service is rendered. The Company plans to apply SFAS No. 123(R) prospectively as of August 1, 2005. The Company is in the process of determining the potential impact on its consolidated financial statements upon adoption.

Accounting for Certain Financial Instruments In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. This statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of this standard did not have an effect on the Company's consolidated balance sheet, statements of income, or cash flows.

Inventory Costs In November 2004, the Financial Accounting Standards Board issued SFAS No. 151, "Inventory costs, an amendment of ARB No. 43, Chapter 4." SFAS No. 151 requires that abnormal amounts of idle capacity and spoilage costs should be excluded from the cost of inventory and expensed when incurred. SFAS No. 151 was effective for the Company on July 1, 2005. The adoption of this standard did not have an effect on the Company's consolidated balance sheet, statements of income, or cash flows.

Note 2.

Stock Based Compensation

Pursuant to Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation, we apply the recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, to our stock options and other stock-based compensation plans. In accordance with APB Opinion No. 25, compensation cost for stock options is recognized in income based on the excess, if any, of the quoted market price of the stock at the grant date of the award or other measurement date over the amount an employee must pay to acquire the stock. The exercise price for stock options granted to employees equals the fair market value of our common stock at the date of grant, thereby resulting in no recognition of compensation expense.

The following table illustrates the effect on net income and earnings per share if we had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation.

	2005	2004	2003
Net income:			
As reported	**$6,155,418**	$11,728,721	$16,567,760
Pro forma	**2,986,418**	8,530,721	13,820,760
Net income per share – basic:			
As reported	**$ 0.35**	$ 0.65	$ 0.95
Pro forma	**0.17**	0.48	0.79
Net income per share – diluted:			
As reported	**$ 0.34**	$ 0.60	$ 0.88
Pro forma	**0.16**	0.44	0.73

The fair value of options granted under the various option plans during fiscal 2005, 2004, and 2003 was estimated on the date of grant using the Black-Sholes option pricing model with the following weighted average assumptions and results:

	2005	2004	2003
Dividend yield	**None**	None	None
Expected volatility	**54-68%**	54-64%	60-80%
Risk-free interest rate	**4.1-4.5%**	3.9-4.7%	3.4-4.3%
Expected life of option	**63-84 mo.**	120 mo.	120 mo.
Fair value of options on grant date	**$7,635,000**	$6,645,000	$4,395,000

Effective August 1, 2005, we will apply SFAS No. 123(R) on a prospective basis.

Note 3.

Executive Benefit Plan

Effective February 1, 2004, the Company entered into a Supplemental Executive Retirement Deferred Compensation Agreement (SERP) with the Company's Chief Executive Officer (CEO). The Agreement requires the Company to establish an account on behalf of the CEO and to fund it yearly until the CEO reaches 65 years of age or early retirement, whichever comes first. The estimated yearly funding amount is approximately $203,000 for seven years. The target benefit is an annual benefit, for a ten year period, equal to one-half of the CEO's base compensation at the time benefits become payable under the SERP.

For the 2005 and 2006 Plan Year, the Company established a Nonqualified Profit Sharing Plan (the "Plan") for a select group of key management employees. The Plan requires annual awards based upon target goals and contribution levels established by the Board of Directors. The Plan requires the Company to establish an account on behalf of each participant and to credit the participant account yearly. The estimated yearly funding amount for the 2005 and 2006 Plan Year is $50,000 and $60,000, respectively. The target benefit is an annual benefit, for a ten-year period, equal to one-tenth of the participant's account at the time benefits become payable under the Plan.

Total compensation expense resulting from the SERP and Plan for fiscal 2005 and 2004 is $344,000 and $162,000, respectively, which is included in selling, general and administrative expenses. As of July 31, 2005 and 2004, the assets of $426,000 and $201,000 and liabilities of $527,000 and $161,000 relating to the SERP and Plan are included in the consolidated balance sheet under the captions Other Asset and Other Liabilities.

Note 4.

Income Taxes

At July 31, 2005, the Company had net operating loss carry-forwards of approximately $23,373,000 for federal tax purposes, which expire in 2013 through 2021, and $10,000 for Minnesota tax purposes, which expire in 2012 through 2016.

In addition, at July 31, 2005, the Company has approximately $2,710,000 in federal and state tax credits, substantially all of which are research and development tax credits, which expire from 2008 through 2025, and approximately $664,000 alternative minimum tax credit, which does not expire. The Company established a valuation allowance for $690,000 against these research and development tax credits as a portion of them may not be realizable in future years.

The components of the income tax expense (benefit) as of July 31, 2005, 2004 and 2003 are as follows:

	2005	2004	2003
Current:			
Federal	**$ 219,000**	$ 260,000	$ 243,000
Deferred:			
Federal	**3,189,000**	6,540,000	(4,494,000)
State	**555,934**	233,790	(304,000)
	3,744,934	6,773,790	(4,798,000)
Total income tax expense (benefit)	**$3,963,934**	$7,033,790	$(4,555,000)

Deferred tax assets and liabilities as of July 31, 2005 and 2004 are described in the table below.

	2005	2004
Current assets:		
Allowance for doubtful accounts and returns	**$ 269,000**	$ 220,000
Inventory	**366,000**	297,000
Deferred Revenue	**374,000**	259,000
Employee compensation and benefits	**184,000**	167,000
Other	**(151,000)**	(53,000)
	1,042,000	890,000
Valuation allowance	**–**	–
Net	**$ 1,042,000**	$ 890,000
Long-term assets (liabilities):		
Net operating loss carry-forwards	**$ 8,794,949**	$12,318,949
Amortization of patents	**857,000**	714,000
Tax credits	**3,374,000**	2,913,000
Compensation	**205,000**	–
Depreciation	**(427,000)**	(152,000)
	12,803,949	15,793,949
Valuation allowance	**(690,000)**	(690,000)
Net	**$12,113,949**	$15,103,949

The effective income tax rate differed from the U.S. federal statutory rate for each of the three years ended July 31, 2005, 2004 and 2003 as follows:

	2005	2004	2003
Tax expense (benefit) on income (loss) from continuing operations computed at statutory rate of 35%	**$3,542,000**	$6,567,000	$ 4,204,000
Change in valuation allowance	**–**	(50,000)	(9,778,000)
Change in valuation allowance related to disqualified stock options	**–**	–	952,000
Other	**421,934**	516,790	67,000
Total income tax expense (benefit)	**$3,963,934**	$7,033,790	$(4,555,000)

Deferred tax benefit of $466,000 and $2,578,000 in 2005 and 2004, respectively, relate to disqualified stock options, which is recorded directly in equity.

Note 5.

Common Stock

Common Stock Repurchased During the first quarter of fiscal 2003, the Company's Board of Directors authorized its initial shares repurchase program of $4,000,000. Subsequent to the initial authorization, the Company's Board of Directors authorized additional share repurchase programs of $4,000,000 in July 2003 and March 2004, $10,000,000 in August 2004 and $15,000,000 in February 2005. As of July 31, 2005, the share repurchase authorization remaining is $13,160,000.

During fiscal 2003, in open market transactions, the Company repurchased 246,900 shares of its common stock, at an average price of approximately $16.18 per share. During fiscal 2004, in open market transactions, the Company repurchased 243,400 shares of its common stock, at an average price of approximately $20.62 per share. During fiscal 2005, in open market transactions, the Company repurchased 1,133,100 shares of its common stock, at an average price of approximately $13.20 per share.

Since the inception of its repurchase programs, the Company has repurchased 1,623,400 shares of its common stock at an average price of approximately $14.77 per share.

Stock Options In December 1999, the Company established the 1999 Stock Compensation Plan (the 1999 Plan), which replaced the 1992 Stock Compensation Plan (the 1992 Plan). Although the 1992 Plan remains in effect for options outstanding, no new options may be granted under this plan.

The 1999 Plan authorizes awards of the following type of equity-based compensation: incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, deferred stock, annual grants of stock options to directors, stock options to directors in lieu of compensation for services rendered as directors, and other stock-based awards valued in whole or in part by reference to stock of the Company. No incentive stock options may be granted on or after December 16, 2009, nor shall such options remain valid beyond ten years following the date of grant.

The total number of shares of stock reserved and available for distribution under the 1999 Plan originally was 2,000,000 shares, all of which may be issued as incentive stock options. The total number of shares of stock reserved and available for distribution under the 1999 Plan has been increased annually since August 1, 2000 by 2% of the number of shares of the Company's common stock outstanding on July 31 of the prior fiscal year.

At July 31, 2005, there were 3,060,722 shares reserved for outstanding options under all plans and 335,053 shares were available for granting of options under the 1999 Plan.

In fiscal 2005, 2004 and 2003, the Company granted 18,807, 11,074, and 11,648 compensatory options, respectively, to its outside directors in lieu of cash payments for directors fees. These options vest six months after date of grant and expire not more than ten years from date of grant. The expense associated with compensatory options to outside directors was approximately $123,000, $106,000, and $104,000 for the years ended July 31, 2005, 2004 and 2003, respectively.

A summary of changes in outstanding options for each of the three years ended July 31 follows:

	2005	2004	2003
Shares under option at beginning of year	**2,652,263**	2,761,253	2,941,974
Options granted	**735,231**	469,274	441,698
Options exercised	**(167,078)**	(519,534)	(538,199)
Options canceled	**(159,694)**	(58,730)	(84,220)
Shares under option at end of year	**3,060,722**	2,652,263	2,761,253
Shares exercisable at end of year	**1,990,763**	1,906,119	1,903,952

Stock option weighted-average exercise prices during fiscal 2005, 2004 and 2003 are summarized below:

	2005	2004	2003
Outstanding at beginning of year	**$11.08**	$ 9.36	$ 8.43
Granted	**13.66**	18.91	12.81
Exercised	**5.15**	8.65	7.37
Canceled	**15.74**	14.58	10.51
Outstanding at end of year	**$11.78**	$11.08	$ 9.36

The following table summarizes information concerning options outstanding and exercisable options as of July 31, 2005:

RANGE OF EXERCISE PRICE	SHARES OUTSTANDING	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE IN YEARS	WEIGHTED-AVERAGE EXERCISE PRICE	SHARES EXERCISABLE	WEIGHTED-AVERAGE EXERCISE PRICE
$ 1 - 6	577,691	5.07	$ 4.74	577,691	$ 4.74
6 - 12	866,880	6.04	7.93	628,788	7.67
12 - 17	663,877	5.55	13.52	407,815	13.77
17 - 21	912,674	3.97	17.96	367,019	18.16
21 - 34	39,600	8.77	27.54	9,450	27.54

In fiscal 2003, the Company granted 2,010 shares of restricted stock to the Board of Directors under the terms of the 1999 Plan, which vested in twelve months. The fair market value of the restricted shares was approximately $34,000 as of July 31, 2003. In case of termination of a member of the Board of Directors, unvested shares are forfeited. Unearned compensation of $36,000 was recorded at the date of grant and was recognized over the vesting period.

In fiscal 2004, the Company granted 1,884 shares of restricted stock to the Board of Directors under the terms of the 1999 Plan, which vested in twelve months. The fair market value of the restricted shares was approximately $54,000 as of July 31, 2004. In case of termination of a member of the Board of Directors, unvested shares are forfeited. Unearned compensation of $36,000 was recorded at the date of grant and is being recognized over the vesting period.

In fiscal 2005, the Company granted 2,754 shares of restricted stock to the Board of Directors under the terms of the 1999 Plan, which vest in twelve months. The fair market value of the restricted shares was approximately $32,000 as of July 31, 2005. In case of termination of a member of the Board of Directors, unvested shares are forfeited. Unearned compensation of $36,000 was recorded at the date of the grant and is being recognized over the vesting period.

In fiscal 2005, 2004 and 2003, total compensation expense of approximately $36,000, $36,000 and $36,000, respectively, were recognized on these restricted stock grants.

Stock Warrants Stock purchase warrants held by unrelated parties representing the right to purchase 26,400 shares of the Company's common stock at $8.52 a share were outstanding as of July 31, 2003. These warrants were cancelled in fiscal 2004 following the expiration of the mandatory notice period.

In May and June 1999, the Company issued 106,509 and 17,669 warrants, respectively, to various investors in conjunction with the Company's private placement offering. These warrants were exercisable into common stock at $11.43 and $11.69, respectively. During fiscal 2003, 101,278 of these warrants were exercised. The remaining unexercised warrants of 3,750 expired in May 2003.

In March 2000, the Company issued 318,810 warrants to various investors in conjunction with the Company's private placement offering. These warrants were exercisable into common stock at $12.67. During fiscal 2004 and 2003, 206,381 and 83,046 of these warrants were exercised. The remaining 15,399 warrants expired in March 2004.

A summary of changes in outstanding warrants for each of the three years ended July 31 follows:

	2005	2004	2003
Warrants outstanding at beginning of year	**–**	248,180	436,254
Warrants issued	**–**	–	–
Warrants exercised	**–**	(206,381)	(184,324)
Warrants expired	**–**	(41,799)	(3,750)
Warrants outstanding at end of year	**–**	–	248,180

Employee Stock Purchase Plan The Employee Stock Purchase Plan, effective January 1, 1991, enables eligible employees, through payroll deduction, to purchase the Company's common stock at the end of each calendar year. The purchase price is the lower of 85% of the fair market value of the stock on the first or last day of the calendar year. The Company issued 37,580 shares in fiscal 2005, 24,814 shares in fiscal 2004, and 25,267 shares in fiscal 2003 under this Plan.

Note 6.

Accrued Warranty Costs

The Company estimates the amount of warranty claims on sold product that may be incurred based on current and historical data. The actual warranty expense could differ from the estimates made by the

Company based on product performance. A summary of changes in the Company's product warranty liability of each of the three years ended July 31 follows:

	2005	2004	2003
Accrued warranty costs at beginning of year	**$ 293,500**	$ 146,500	$ 123,000
Payments made for warranty costs	**(494,700)**	(334,900)	(226,200)
Accrual for product costs	**347,700**	481,900	249,700
Accrued warranty costs at end of year	**$ 146,500**	$ 293,500	$ 146,500

Note 7.

401 K Plan

The Company has an employees' savings and profit sharing plan for all qualified employees who have completed six months of service. Company contributions are made at the discretion of the Board of Directors subject to the maximum amount allowed under the Internal Revenue Code. Contributions for the years ended July 31, 2005, 2004 and 2003 were $357,958, $408,860, and $303,766, respectively.

Note 8.

Commitments and Contingencies

The Company's medical products operation is conducted from a leased facility under an operating lease which expires in fiscal 2011. The lease can be canceled by either party with notice and payment of a termination fee.

The Company is also leasing administrative and shipping facilities under an operating lease that expires in fiscal 2009. The Company is also leasing a sales office under an operating lease that expires in 2006.

Total rental expense charged to operations was approximately $406,000, $269,000, and $262,000, for the years ended July 31, 2005, 2004, and 2003, respectively.

Future minimum payments under the non-cancelable operating leases at July 31, 2005 are:

YEAR ENDING JULY	AMOUNT
2006	$ 417,000
2007	426,000
2008	431,000
2009	394,000
2010	273,000
Total minimum lease payments	$1,941,000

The Company has been served with a shareholder lawsuit that was filed with the Minnesota Federal District Court on June 3, 2005, alleging that Possis Medical, Inc. and named individual officers violated federal securities laws during a period beginning in 2002. The Complaint seeks class action status and unspecified damages. The Company believes that the allegations of the lawsuit are without merit and is contesting the lawsuit vigorously. The Company does not believe that the amount of any potential liability associated with these matters can be estimated at this time, but an unfavorable resolution could have a material adverse effect on results of operations, financial condition or cash flows.

Note 9.

Segment and Geographic Information and Concentration of Credit Risk

The Company's operations are in one business segment; the design, manufacture and distribution of cardiovascular and vascular medical devices. The Company evaluates revenue performance based on the worldwide revenues of each major product line and profitability based on an enterprise-wide basis due to shared infrastructures to make operating and strategic decisions.

Total revenues from sales in the United States and outside the United States for each of the three years ended July 31, 2005, 2004 and 2003 are as follows:

	2005	2004	2003
United States	**$63,115,776**	$70,867,103	$56,212,396
Outside the United States	**1,937,553**	1,553,065	1,215,313
Total revenues	**$65,053,329**	$72,420,168	$57,427,709

In fiscal 2005, 2004, and 2003 there were no individual customers with sales exceeding 10% of total revenues.

Note 10.

Subsequent Events

On August 29, 2005, the Company issued 18,353 shares of restricted stock to executives of the Company as part of the fiscal 2005 management incentive program. The fair market value of the restricted stock was $230,600. The restricted stock vests at the time the Company's stock price closes at $13.00 or greater. On August 31, 2005 the Company's stock price closed at $13.03. The $230,600 was expensed in fiscal 2005 as compensation expense.

Subsequent to year-end the Company repurchased 99,600 shares of its common stock, at an average price of approximately $10.98 per share. This was part of the repurchase program authorized by the Board of Directors in February 2005.

Note 11.

Selected Quarterly Financial Data (Unaudited)

FISCAL YEAR ENDED JULY 31, 2005	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
Product sales	**$17,501,988**	**$16,168,884**	**$15,101,977**	**$16,280,480**
Gross profit	**13,197,649**	**11,885,466**	**10,946,716**	**12,056,624**
Net income	**2,192,875**	**1,669,161**	**1,015,827**	**1,277,554**
Net income per common share				
Basic	**$ 0.12**	**$ 0.09**	**$ 0.06**	**$ 0.07**
Diluted	**0.11**	**0.09**	**0.06**	**0.07**

FISCAL YEAR ENDED JULY 31, 2004	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
Product sales	$15,602,288	$17,448,677	$19,329,399	$20,039,804
Gross profit	11,783,057	13,481,532	14,548,022	15,287,463
Net income	1,927,099	3,118,301	3,095,693	3,587,628
Net income per common share				
Basic	$ 0.11	$ 0.18	$ 0.17	$ 0.20
Diluted	0.10	0.16	0.16	0.18

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Possis Medical, Inc.:

We have audited the accompanying consolidated balance sheets of Possis Medical, Inc. and subsidiaries (the "Company") as of July 31, 2005 and 2004, and the related consolidated statements of income and comprehensive income, cash flows and changes in shareholders' equity for each of the three years in the period ended July 31, 2005. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company at July 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended July 31, 2005, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of July 31, 2005, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated October 13, 2005 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Deloitte & Touche LLP

Deloitte & Touche LLP
Minneapolis, Minnesota
October 13, 2005

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Possis Medical, Inc.:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting under Item 9A, that Possis Medical, Inc. and subsidiaries (the "Company") maintained effective internal control over financial reporting as of July 31, 2005, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

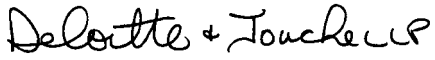
We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of July 31, 2005, is fairly stated, in all material respects, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of July 31, 2005, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended July 31, 2005 of the Company, and our report dated October 7, 2005 expressed an unqualified opinion on those financial statements and financial statement schedule.



Deloitte & Touche LLP
Minneapolis, Minnesota
October 13, 2005

Board of Directors

Robert G. Dutcher
Chairman of the Board
Director since 1993
Chairman, President and
Chief Executive Officer

Mary K. Brainerd
Director since 2001
President and Chief Executive Officer,
HealthPartners, Inc.,
Minneapolis, MN

Seymour J. Mansfield
Director since 1987
Officer and Shareholder,
Mansfield, Tanick & Cohen, P.A.,
Minneapolis, MN

William C. Mattison, Jr.
Director since 1999
Retired. Formerly a Principal of
Gerard, Klauer Mattison & Co., Inc.,
New York, NY

Whitney A. McFarlin
Director since 1998
Retired. Former Chairman
of the Board, President
and Chief Executive Officer,
Angeion Corporation,
Minneapolis, MN

Donald C. Wegmiller
Director since 1987
Chairman, Clark Consulting
HealthCare Group,
Minneapolis, MN

Rodney A. Young
Director since 1999
President and
Chief Executive Officer,
Angeion Corporation,
Minneapolis, MN

Officers

Robert G. Dutcher
Chairman, President and
Chief Executive Officer

Jules L. Fisher
Vice President, Finance
and Chief Financial Officer

Irving R. Colacci
Vice President, Legal Affairs &
Human Resources, General Counsel,
Secretary and Chief Governance Officer

James D. Gustafson
Senior Vice President, Research,
Development, Engineering, Clinical
Evaluation, Chief Quality Officer

Shawn F. McCarrey
Executive Vice President,
Worldwide Sales and Marketing

Robert J. Scott
Vice President, Manufacturing
and Information Technology,
Chief Security Officer

Corporate Information

Auditors
Deloitte & Touche LLP,
Minneapolis, MN

Legal Counsel
Dorsey & Whitney LLP,
Minneapolis, MN

Transfer Agent
Wells Fargo Minnesota, N.A.
Shareowner Services
161 North Concord Exchange
P.O. Box 738
South Saint Paul, MN 55075-0738
Phone: (800) 468-9716

Annual Meeting
The annual meeting will be held
at the Marriott City Center, 30 South
Seventh Street, Minneapolis, MN
on December 7, 2005 at 4:00 p.m.

Form 10-K
A copy of the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission will be provided to shareholders without charge upon written request.

Investor Information
Shareholders, security analysts, and investors seeking additional information about the Company should call Investor Relations at (763) 780-4555. The following information may be obtained upon request from the Possis Medical Investor Relations Department, 9055 Evergreen Boulevard, N.W. Minneapolis, MN 55433-8003, USA.

- News releases describing significant Company events and sales and earnings results for each quarter and the fiscal year.
- Form 10-K Annual and Form 10-Q Quarterly Reports to the Securities and Exchange Commission detailing Possis' business and financial condition.

News releases and other information can be accessed via the Internet at www.possis.com

Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities
The Company had 1,237 common shareholders of record at September 2, 2005. Our common stock is traded on the Nasdaq Stock Market under the symbol POSS. High and low closing sale prices for each quarter of fiscal years ended July 31, 2005 and 2004 are presented below:

	2005		2004	
	HIGH	LOW	HIGH	LOW
Quarter:				
First	$30.76	$9.78	$19.37	$15.56
Second	13.98	10.50	24.94	15.01
Third	12.20	8.02	29.79	23.50
Fourth	11.70	8.28	34.15	24.18

The Company has not paid cash dividends on its common stock since 1983. We do not currently anticipate paying cash dividends in the foreseeable future.

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