

UTAH MEDICAL PRODUCTS INC  
Form 10-Q  
May 09, 2007

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

**FORM 10-Q**

Quarterly Report Under Section 13 or 15(d) of  
The Securities Exchange Act of 1934

For quarter ended: March 31, 2007

Commission File No. 0-11178

UTAH MEDICAL PRODUCTS, INC.  
(Exact name of Registrant as specified in its charter)

UTAH  
(State or other jurisdiction of  
incorporation or organization)

87-0342734  
(I.R.S. Employer  
Identification No.)

7043 South 300 West  
Midvale, Utah 84047  
Address of principal executive offices

Registrant's telephone number: (801) 566-1200

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act (check one):  
Large accelerated filer  Accelerated filer  Non-accelerated filer

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of May 9, 2007:  
3,931,000.



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## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

UTAH MEDICAL PRODUCTS, INC. AND SUBSIDIARIES  
CONSOLIDATED CONDENSED BALANCE SHEETS AS OF  
MARCH 31, 2007 AND DECEMBER 31, 2006  
(in thousands)

| <u>ASSETS</u>   | (unaudited)<br>MARCH 31,<br>2007 | (audited)<br>DECEMBER 31,<br>2006 |
|---|----------------------------------|-----------------------------------|
| Current assets:   |                                  |                                   |
| Cash  | \$ 634                           | \$ 610                            |
| Investments, available-for-sale   | 21,011                           | 20,439                            |
| Accounts & other receivables - net  | 4,279                            | 3,746                             |
| Inventories   | 3,204                            | 3,037                             |
| Other current assets  | 680                              | 579                               |
| Total current assets  | 29,808                           | 28,411                            |
| Property and equipment - net  | 8,346                            | 8,331                             |
| Goodwill  | 7,191                            | 7,191                             |
| Other intangible assets   | 2,596                            | 2,588                             |
| Other intangible assets - accumulated amortization  | (2,346)                          | (2,334)                           |
| Other intangible assets - net   | 250                              | 254                               |
| <b>TOTAL</b>  | <b>\$ 45,595</b>                 | <b>\$ 44,187</b>                  |
| <br><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>   |                                  |                                   |
| Current liabilities:  |                                  |                                   |
| Accounts payable  | \$ 649                           | \$ 599                            |
| Accrued expenses  | 3,180                            | 2,341                             |
| Current portion of note payable   | 441                              | 441                               |
| Total current liabilities   | 4,270                            | 3,381                             |
| Note payable  | 4,223                            | 4,383                             |
| Deferred income taxes   | 311                              | 308                               |
| Total liabilities   | 8,804                            | 8,072                             |
| Stockholders' equity:   |                                  |                                   |
| Preferred stock - \$.01 par value; authorized - 5,000 shares; no shares issued or outstanding   |                                  |                                   |
| Common stock - \$.01 par value; authorized - 50,000 shares; issued - March 31, 2007, 3,946 shares and December 31, 2006, 3,944 shares | 39                               | 39                                |
| Accumulated other comprehensive income  | (727)                            | (720)                             |

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|                            |                  |                  |
|----------------------------|------------------|------------------|
| Retained earnings          | 37,479           | 36,796           |
| Total stockholders' equity | 36,791           | 36,115           |
| <b>TOTAL</b>               | <b>\$ 45,595</b> | <b>\$ 44,187</b> |

*see notes to consolidated condensed financial statements*

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UTAH MEDICAL PRODUCTS, INC. AND SUBSIDIARIES  
CONSOLIDATED CONDENSED STATEMENTS OF INCOME FOR THE  
THREE MONTHS ENDED MARCH 31, 2007 AND MARCH 31, 2006

(in thousands, except per share amounts)  
(unaudited)

|                                     | THREE MONTHS ENDED<br>MARCH 31, |          |
|-------------------------------------|---------------------------------|----------|
|                                     | 2007                            | 2006     |
| NET SALES                           | \$ 7,118                        | \$ 7,104 |
| COST OF SALES                       | 3,181                           | 3,097    |
| Gross Margin                        | 3,937                           | 4,007    |
| <b>EXPENSES</b>                     |                                 |          |
| Selling, general and administrative | 1,150                           | 1,308    |
| Research & development              | 96                              | 68       |
| Total                               | 1,246                           | 1,376    |
| Income from Operations              | 2,691                           | 2,632    |
| OTHER INCOME                        | 300                             | 414      |
| Income Before Income Tax Expense    | 2,991                           | 3,046    |
| Income Tax Expense                  | 1,047                           | 1,010    |
| Net Income                          | \$ 1,944                        | \$ 2,036 |
| <br>                                |                                 |          |
| BASIC EARNINGS PER SHARE            | \$ 0.49                         | \$ 0.52  |
| DILUTED EARNINGS PER SHARE          | \$ 0.48                         | \$ 0.50  |
| SHARES OUTSTANDING - BASIC          | 3,941                           | 3,952    |
| SHARES OUTSTANDING - DILUTED        | 4,016                           | 4,070    |

*see notes to consolidated condensed financial statements*

**UTAH MEDICAL PRODUCTS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2007 AND MARCH 31, 2006**  
(in thousands - unaudited)

|   | MARCH 31,     |               |
|---|---------------|---------------|
|   | 2007          | 2006          |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                      |               |               |
| Net income  | \$ 1,944      | \$ 2,036      |
| Adjustments to reconcile net income to net cash provided by operating activities: |               |               |
| Depreciation and amortization   | 151           | 156           |
| Gain on investments   | (253)         | (213)         |
| Provision for losses on accounts receivable                                       | 0             | 2             |
| Deferred income taxes   | -             | 64            |
| Stock-based compensation expense  | 19            | 43            |
| Tax benefit attributable to exercise of stock options                             | 30            | 2,149         |
| Changes in operating assets and liabilities:                                      |               |               |
| Accounts receivable - trade   | (385)         | 21            |
| Accrued interest and other receivables  | (149)         | (422)         |
| Inventories   | (167)         | (171)         |
| Prepaid expenses and other current assets   | (100)         | (59)          |
| Accounts payable  | 49            | 25            |
| Accrued expenses  | 838           | (360)         |
| Total adjustments   | 33            | 1,235         |
| Net cash provided by operating activities   | 1,978         | 3,271         |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                      |               |               |
| Capital expenditures for:   |               |               |
| Property and equipment  | (85)          | (148)         |
| Intangible assets   | (8)           | -             |
| Purchases of investments  | (900)         | (1,800)       |
| Proceeds from sale of investments   | 544           | 2,000         |
| Net cash (used in) provided by investing activities                               | (449)         | 52            |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                      |               |               |
| Proceeds from issuance of common stock - options                                  | 102           | 409           |
| Common stock purchased and retired  | (544)         | (371)         |
| Common stock purchased and retired - options                                      | -             | (2,488)       |
| Repayments of note payable  | (225)         | (85)          |
| Payment of dividends  | (829)         | (655)         |
| Net cash used in financing activities   | (1,495)       | (3,190)       |
| Effect of exchange rate changes on cash   | (10)          | (3)           |
| <b>NET INCREASE IN CASH</b>   | <b>23</b>     | <b>130</b>    |
| <b>CASH AT BEGINNING OF PERIOD</b>  | <b>610</b>    | <b>703</b>    |
| <b>CASH AT END OF PERIOD</b>  | <b>\$ 634</b> | <b>\$ 832</b> |

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

|  |    |    |    |    |
|--|----|----|----|----|
| Cash paid during the period for income taxes | \$ | 0  | \$ | 0  |
| Cash paid during the period for interest     | \$ | 65 | \$ | 62 |

*see notes to consolidated condensed financial statements*



UTAH MEDICAL PRODUCTS, INC.  
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS  
(unaudited)

(1) The unaudited financial statements have been prepared in accordance with the instructions to form 10-Q and do not include all of the information and note disclosures required by accounting principles generally accepted in the United States. These statements should be read in conjunction with the financial statements and notes included in the Utah Medical Products, Inc. ("UTMD" or "the Company") annual report on form 10-K for the year ended December 31, 2006. In the opinion of management, the accompanying financial statements include all adjustments (consisting only of normal recurring adjustments) necessary to summarize fairly the Company's financial position and results of operations. Dollar amounts are in thousands except per-share amounts and where noted.

(2) Inventories at March 31, 2007 and December 31, 2006 consisted of the following:

|                 | March 31,<br>2007 | December 31,<br>2006 |
|-----------------|-------------------|----------------------|
| Finished goods  | \$ 958            | \$ 1,002             |
| Work-in-process | 1,049             | 984                  |
| Raw materials   | 1,197             | 1,051                |
| Total           | \$ 3,204          | \$ 3,037             |

(3) In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109." This statement clarifies the accounting for uncertainty in income tax positions. The Company or one of its subsidiaries files or has filed income tax returns in the U.S. federal jurisdiction, and in various states and Ireland. With few exceptions, UTMD is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2002. In 2005, the Internal Revenue Service examined the Company's federal income tax returns for 2002 - 2004 and suggested one immaterial adjustment which the Company made.

The Company adopted the provisions of FIN 48 on January 1, 2007. UTMD did not make any adjustment to opening retained earnings as a result of the implementation. The Company recognizes interest accrued related to unrecognized tax benefits along with penalties in operating expenses. During the quarters ended March 31, 2007 and 2006, the Company did not recognize any interest and penalties relating to income taxes. UTMD did not have any accrual for the payment of interest and penalties at March 31, 2007 or December 31, 2006.

(4) Stock-Based Compensation. At March 31, 2007 the Company had stock-based employee compensation plans, which authorized the grant of stock options to eligible employees and directors. Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards (SFAS) 123R, *Share-Based Payment*, using the modified prospective method. This statement requires the Company to recognize compensation cost based on the grant date fair value of options granted to employees and directors. In the quarters ended March 31, 2007 and 2006, the Company recognized \$19 and \$43, respectively, in compensation cost related to adoption of the statement.

(5) Comprehensive Income. Comprehensive income for the three months ending March 31, 2007 and 2006 was \$1,940 and \$2,012, net of taxes, respectively. The components used to calculate comprehensive income were foreign currency translation adjustments of (\$4) and (\$23) in 2007 and 2006, respectively, and unrealized holding losses of (\$1) in 2006.



(6) Warranty Reserve. The Company accrues provisions for estimated costs that are likely to be incurred for product warranties and uncollectible accounts. The amount of the provision is adjusted, as required, to reflect historical experience. The following table summarizes changes to UTMD's warranty reserve during 1Q 2007 (in thousands):

|   |    |    |
|---|----|----|
| Beginning Balance, January 1, 2007                              | \$ | 60 |
| <u>Changes in Warranty Reserve during 1Q 2007:</u>              |    |    |
| Aggregate reductions for warranty repairs                       |    | -  |
| Aggregate changes for warranties issued during reporting period |    | -  |
| Aggregate changes in reserve related to preexisting warranties  |    | -  |
| Ending Balance, March 31, 2007                                  | \$ | 60 |

(7) Investments. As of March 31, 2007, all of the Company's investments are held in Fidelity Cash Reserves. Changes in the unrealized holding gain on investment securities available-for-sale and reported as a separate component of accumulated other comprehensive income are as follows:

|   | 1Q 2007 | 1Q 2006 |
|---|---------|---------|
| Balance, beginning of period                                | \$ -    | \$ 109  |
| Realized gain from securities included in beginning balance | -       | -       |
| Unrealized holding gains (losses), in equity securities     | -       | (1)     |
| Deferred income taxes on unrealized holding gain            | -       | -       |
| Balance, end of period                                      | \$ -    | \$ 108  |

(8) Forward-Looking Information. This report contains certain forward-looking statements and information relating to the Company that are based on the beliefs of management as well as assumptions made by, and information currently available to, management. When used in this document, the words "anticipate," "believe," "should," "project," "estimate," "expect," "intend" and similar expressions, as they relate to the Company or its management, are intended to identify forward-looking statements. Such statements reflect the current view of the Company respecting future events and are subject to certain risks, uncertainties, and assumptions, including the risks and uncertainties noted throughout this document. Although the Company has attempted to identify important factors that could cause the actual results to differ materially, there may be other factors that cause the forward statement not to come true as anticipated, believed, projected, expected, or intended. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may differ materially from those described herein as anticipated, believed, projected, estimated, expected, or intended.

General risk factors that may impact the Company's revenues include the market acceptance of competitive products; administrative practices of group purchasing organizations; obsolescence caused by new technologies; the possible introduction by competitors of new products that claim to have many of the advantages of UTMD's products at lower prices; the timing and market acceptance of UTMD's own new product introductions; changes in clinical practices; UTMD's ability to efficiently and responsively manufacture its products; including the possible effects of lack of performance of suppliers; success in gaining access to important global distribution channels; budgetary constraints; the timing of regulatory approvals for newly introduced products; regulatory intervention in current operations; and third party reimbursement of health care costs of customers.

Risk factors, in addition to the risks outlined in the previous paragraph that may impact the Company's assets and liabilities, as well as cash flows, include: risks inherent to companies manufacturing products used in healthcare, including claims resulting from the improper use of devices and other product liability claims; defense of the Company's intellectual property or claims of patent infringement by others; productive use of assets in generating revenues; management of working capital, including inventory levels required to meet delivery commitments at a minimum cost; and timely collection of accounts receivable.

Additional risk factors that may affect non-operating income include: the continuing viability of the Company's technology license agreements; actual cash and investment balances; asset dispositions; and acquisition activities that may require external funding.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations****General**

UTMD manufactures and markets a well-established range of specialty medical devices. The Company's Form 10-K Annual Report for the year ended December 31, 2006 provides a detailed description of products, technologies, markets, regulatory issues, business initiatives, resources and business risks, among other details, and should be read in conjunction with this report. Because of the relatively short span of time, results for any given three month period in comparison with a previous three month period may not be indicative of comparative results for the year as a whole. Dollar amounts in the report are in thousands, except per-share amounts or where otherwise noted.

**Analysis of Results of Operations**

## a) Overview

In 1Q 2007, UTMD's consolidated global sales were essentially the same as 1Q 2006. UTMD achieved the following profitability measures for 1Q 2007, in comparison with 1Q 2006:

|                          | 1Q 07 | 1Q 06 |
|--------------------------|-------|-------|
| Gross Profit Margin:     | 55.3% | 56.4% |
| Operating Profit Margin: | 37.8% | 37.0% |
| Net (Income) Margin:     | 27.3% | 28.7% |

1Q 2007 earnings per share (EPS) of \$.484 decreased 3% compared to 1Q 2006.

## b) Revenues

The Company believes that revenue should be recognized at the time of shipment as title generally passes to the customer at the time of shipment. Revenue recognized by UTMD is based upon documented arrangements and fixed contracts in which the selling price is fixed prior to completion of an order. Revenue from product and service sales is generally recognized at the time the product is shipped or service completed and invoiced, and collectibility is reasonably assured. There are circumstances under which revenue may be recognized when product is not shipped, all of which meet the criteria of SAB 104: the Company provides engineering services, for example, design and production of manufacturing tooling that may be used in subsequent UTMD manufacturing of custom components for other companies. This revenue is recognized when UTMD's service has been completed according to a fixed contractual agreement.

Total sales in 1Q 2007 were about the same as in 1Q 2006. International sales increased 20% while domestic sales decreased 6%. Domestic sales were comprised of domestic direct sales (sales of finished devices to users or distributors) down 4% and domestic OEM sales (sales of components to other companies for use in their products) down 28%. Domestic OEM sales and international sales have an uneven quarter-to-quarter sales pattern because customers tend to purchase several months' supply of products at a time to minimize costs.

Trade shipments from UTMD's Ireland facility were up 9% in EURO terms, and up 19% in USD terms due to a weaker US Dollar.

The following table provides sales dollar amounts divided into general product categories for total sales and the subset of international sales:

## Global revenues by product category:

|   | 1Q 2007  | %  | 1Q 2006  | %  |
|---|----------|----|----------|----|
| Obstetrics                                    | \$ 2,260 | 32 | \$ 2,410 | 34 |
| Gynecology/ Electrosurgery/<br>Urology        | 1,558    | 22 | 1,429    | 20 |
| Neonatal                                      | 1,744    | 24 | 1,769    | 25 |
| Blood Pressure Monitoring and<br>Accessories* | 1,556    | 22 | 1,496    | 21 |

|        |    |       |     |    |       |     |
|--------|----|-------|-----|----|-------|-----|
| Total: | \$ | 7,118 | 100 | \$ | 7,104 | 100 |
|--------|----|-------|-----|----|-------|-----|

\*includes molded components sold to OEM customers.

International revenues by product category:

|   | 1Q 2007  | %   | 1Q 2006  | %   |
|---|----------|-----|----------|-----|
| Obstetrics                                    | \$ 292   | 14  | \$ 205   | 12  |
| Gynecology/ Electrosurgery/<br>Urology        | 457      | 22  | 399      | 23  |
| Neonatal                                      | 182      | 9   | 169      | 10  |
| Blood Pressure Monitoring and<br>Accessories* | 1,146    | 55  | 965      | 56  |
| Total:  | \$ 2,077 | 100 | \$ 1,738 | 100 |

\*includes molded components sold to OEM customers.

For the rest of 2007, UTMD's sales depend on its continued ability to retain medical staff involvement in purchasing decisions for UTMD's "physician-preference" products used in U.S. hospitals where administrators are increasingly making the product decisions, continued expansion in clinical acceptance of its newer specialty products, release of new products after FDA concurrence with premarketing submissions and continued development of UTMD's international distribution channels.

c)

#### Gross Profit

UTMD's average gross profit margin (GPM), gross profits as a percentage of sales, was 55.3% in 1Q 2007, compared to 56.4% 1Q 2006. UTMD's prices for its products have remained generally consistent with the prior year, but 1Q 2007 distribution mix favored lower margins as a result of higher international sales and lower domestic sales compared to 1Q 2006. The Company is also experiencing inflationary pressures in its manufacturing costs associated with both labor and raw materials. Since nearly all of UTMD's products are made of petroleum-based compounds, the worldwide substantial increase in the cost of oil has a significant impact on raw materials costs. In addition, the higher cost of oil has direct impact on transportation cost, both those included in manufacturing overhead for shipping and receiving products and raw materials, and those in operating expenses associated with sales and marketing travel expenses. UTMD continues to retain facilities and other manufacturing capabilities in excess of its needs. As a result, it projects that the dilution of fixed overhead costs that will occur with anticipated increased sales during the remainder of 2007 will help mitigate a continuing expected increase in incremental direct material and labor costs together with increased competitive pressure on prices. The Company expects an overall GPM in 2007 slightly lower than in 2006.

OEM sales are sales of UTMD components and subassemblies that are marketed by other companies as part of their product offerings. UTMD utilizes OEM sales as a means to help maximize utilization of its capabilities established to satisfy its direct sales business. As a general rule, prices for OEM sales expressed as a multiple of direct variable manufacturing expenses are lower than for direct sales because, in the OEM and international channels, UTMD's business partners incur significant expenses of sales and marketing. Because of UTMD's small size and period-to-period fluctuations in OEM business activity, allocation of fixed manufacturing overhead expenses cannot be meaningfully allocated between direct and OEM sales. Therefore, UTMD does not report GPM by sales channels.

d)

#### Operating Profit

Operating Profit, or income from operations, is the surplus after operating expenses are subtracted from gross profits. Operating expenses include sales and marketing (S&M) expenses, product development (R&D) expenses and general and administrative (G&A) expenses. Combined operating expenses in 1Q 2007 were lower than 1Q 2006 by \$130 as a result of lower litigation expenses and lower sales expenses when selling through international distributors. Also, option compensation expense included in G&A expenses in 1Q 2007 was \$19 compared to \$43 in 1Q 2006. Operating profit margin in 1Q 2007 was 37.8% compared to 37.0% of sales in 1Q 2006. For the remainder of 2007, UTMD expects to control operating expenses, excluding consideration for litigation expenses which are less predictable, at a level below 19% of sales, yielding a operating profit margin consistent with 2006.

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S&M expenses in 1Q 2007 were \$485 or 6.8% of sales compared to \$590, or 8.3% of sales in 1Q 2006. Because UTMD sells internationally through third party distributors, its S&M expenses are predominantly for U.S. business activity where it sells directly to clinical users. During the remainder of 2007, UTMD intends to continue to manage S&M expenses to less than 9% of total sales.

R&D expenses in 1Q 2007 were \$96 or 1.4% of sales compared to \$68 or 1.0% of sales in 1Q 2006. UTMD will opportunistically invest in R&D as projects are identified that may help its product development pipeline. In the remainder of 2007, UTMD plans to continue to increase R&D spending modestly as a percentage of sales.

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G&A expenses in 1Q 2007 were \$664 or 9.3% of sales compared to \$718 or 10.1% of 1Q 2006 sales. In addition to litigation costs, G&A expenses include the cost of outside auditors and corporate governance activities relating to the implementation of SEC rules resulting from the Sarbanes-Oxley Act of 2002, as well as estimated stock-based compensation cost as required by SFAS 123R. Excluding any currently unexpected litigation costs, UTMD plans to hold G&A expenses in 2007 at a level less than 10% of sales.

e) Non-operating income

Non-operating income in 1Q 2007 was \$300 compared to \$414 in 1Q 2006. UTMD received \$254 in 1Q 2007 compared to \$377 in 1Q 2006 in interest, dividends and capital gains income from investing cash balances. During 1Q 2006, the Company realized \$213 in capital gains when liquidating its investments in equities which did not recur in 1Q 2007. In 1Q 2007, UTMD paid \$65 for interest expense compared to \$62 in 1Q 2006. The interest expense resulted from UTMD's Ireland facility borrowing €4.5 million (\$5,336) in December 2005 to allow the repatriation of profits generated by its Ireland operations between 1996 and 2005. The loan is being paid by the Ireland subsidiary from profits generated there. It should take about 4 more years to repay the loan. Royalty income, which UTMD receives from licensing its technology to other companies, was the same for the same periods in both years. Management currently estimates that total 2007 non-operating income will be about \$370 lower than in 2006. The actual amount of 2007 non-operating income may be even lower if UTMD utilizes its excess cash for an acquisition, unexpected litigation costs or substantial share repurchases.

f) Earnings Before Income Taxes

1Q 2007 earnings before income taxes (EBT) decreased to \$2,991 compared to \$3,046 in 1Q 2006. 1Q 2007 EBT margin was 42.0% of sales compared to 42.9% in 1Q 2006.

g) Net Income and Earnings per Share

UTMD's net income decreased to \$1,944 in 1Q 2007 compared to \$2,036 in 1Q 2006. Net profit margins (NPM), which are net income (after tax) expressed as a percentage of sales, were 27.3% in 1Q 2007 compared to 28.7% in 1Q 2006. The income tax provision rate in 1Q 2007 was 35.0% compared to 33.2% in 1Q 2006. The increased tax rate resulted primarily from IRS discontinuance of the extraterritorial income exclusion in 2007. UTMD expects its consolidated income tax rate for 2007 will remain higher than in 2006, which was 34.2% for the year. Diluted 1Q 2007 Earnings per Share (EPS) decreased to \$.484 from \$.500 in 1Q 2006. 1Q 2007 weighted average number of diluted common shares (the number used to calculate diluted EPS) were 4,015,955 compared to 4,069,630 shares in 1Q 2006. The Company repurchased 16,900 of its shares in the open market in 1Q 2007. Exercises of employee options in 1Q 2007 added 19,723 shares (net of 6,197 shares swapped by employees as payment for the option exercise cost). Employees exercised a total of 25,920 option shares during 1Q 2007. Options outstanding at March 31, 2007 were about 201,500 shares at an average exercise price of \$20.33 per share. Increases and decreases in UTMD's stock price impact EPS as a result of the dilution calculation for unexercised options with exercise prices below the average stock market value during each period. The dilution calculation added 74,000 shares to actual weighted average shares outstanding in 1Q 2007 compared to 117,000 in 1Q 2006. The decrease in 2006 dilution is primarily due to fewer unexercised options outstanding with those options at higher exercise prices. Actual outstanding common shares as of the end of 1Q 2007 were 3,946,400 compared to 3,966,400 at the end of 1Q 2006.

h) Return on Equity

Return on equity (ROE) is the portion of net income retained by UTMD (after payment of dividends) to internally finance its growth, divided by the average accumulated shareholder equity during the applicable time period. Annualized ROE (after payment of dividends) in 1Q 2007 was 12%, compared to 17% in 1Q 2006. The lower ROE in 1Q 2007 was due mainly to higher average equity to date in 2007. Share repurchases have a beneficial impact on ROE as long as the Company sustains net profit performance because shareholder equity is reduced by the cost of the shares repurchased. Although UTMD expects higher net profits in 2007, ROE may be lower than in 2006 as a result of increased dividends to shareholders coupled with higher average shareholders' equity. A lower ROE in 2007 will not

affect UTMD's ability to internally finance its revenue growth.

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## Liquidity and Capital Resources

i)

## Cash flows

Net cash provided by operating activities, including adjustments for depreciation and other non-cash operating expenses, along with changes in working capital and the tax benefit attributable to exercise and subsequent sale of employee and director stock options, totaled \$1,978 in 1Q 2007 compared to \$3,271 in 1Q 2006. A \$2,119 smaller tax benefit from exercise of employee and outside director stock options in 1Q 2007 compared to 1Q 2006 was the most significant difference in the two periods.

The Company's use of cash for investing activities was primarily as a result of purchases of short-term investments, in an effort to maximize returns on excess cash balances while maintaining safety and liquidity. Capital expenditures for property and equipment were \$85 in 1Q 2007 compared to \$148 in 1Q 2006. The rate of investing in new property and equipment is required to keep facilities, equipment and tooling in good working condition.

In 1Q 2007, UTMD received \$102 and issued 19,723 shares of stock upon the exercise of employee stock options. Employees exercised a total of 25,920 option shares in 1Q 2007, with 6,197 shares immediately being retired as a result of the individuals trading the shares in payment of the exercise price of the options. UTMD repurchased 16,900 shares of stock in the open market at a cost of \$544 during 1Q 2007. Option exercises in 1Q 2007 were at an average price of \$12.06 per share. Share repurchases in the open market were at an average cost of \$32.18 per share, including commissions and fees. In comparison, the Company received \$409 from issuing 122,191 shares of stock on the exercise of employee stock options in 1Q 2006, net of 144,438 shares retired upon employees trading those shares in payment of the stock option exercise price. UTMD repurchased 12,099 shares of stock in the open market at a cost of \$371 during 1Q 2006.

UTMD Ltd. made payments of \$225 on its note payable during 1Q 2007, compared to \$85 during 1Q 2006. UTMD paid \$829 in cash dividends during 1Q 2007 compared to \$655 in 1Q 2006.

Management believes that future income from operations and effective management of working capital will provide the liquidity needed to finance growth plans. Planned capital expenditures during the remainder of 2007 are expected to be less than \$500 to keep facilities, equipment and tooling in good working order. In addition, UTMD may use cash in 2007 for selective infusions of technological, marketing or product manufacturing rights to broaden the Company's product offerings; for continued share repurchases when the price of the stock is undervalued; and if available for a reasonable price, acquisitions that may strategically fit UTMD's business and are accretive to performance. The revolving line of credit will continue to be available for liquidity when the timing of acquisitions or repurchases of stock require a large amount of cash in a short period of time not otherwise available from existing cash and investment balances.

j)

## Assets and Liabilities

March 31, 2007 total assets were \$1,408 higher than at December 31, 2006. The increase resulted primarily from a \$572 increase in investments and a \$533 increase in accounts and other receivables, the largest component of which was a \$385 increase in trade accounts receivable, net of allowance for doubtful accounts. Although inventories increased \$167, the Company expects 2007-ending inventory balances to be about the same as 2006-ending balances. Other current assets increased \$101. Cash and investment balances increased despite paying \$829 in dividends, \$544 to repurchase shares and \$225 in repayments of the note payable in Ireland.

Working capital was \$25,538 at March 31, 2007, a \$508 increase from 2006 year-end. Working capital continues in excess of UTMD's normal operating needs. Current liabilities increased \$889 from higher accrued liabilities. That increase resulted from the fact that in the first quarter, unlike other calendar quarters, estimated income tax payments are due after the end of the quarter, and also unlike 1Q 2006 when accrued income taxes were offset by a much larger than usual tax benefit resulting from option exercises. As a result of the working capital changes, UTMD's current ratio decreased to 7.0 on March 31, 2007 from 8.4 at year-end 2006, and 8.0 on March 31, 2006.

Net property and equipment increased \$15 in 1Q 2007 after additions of \$85 and an increase in the dollar-denominated value of Ireland P&E, offset by depreciation of \$139. U.S. dollar-denominated assets in Ireland increased about \$33 (after depreciation) or 1.4% during 1Q 2007. Goodwill resulting from prior acquisitions remained the same. Net intangible assets excluding goodwill decreased \$4 as a result of amortization of intellectual property of \$12 offset by additions of intangibles of \$8. At March 31, 2007, net intangible assets including goodwill were 16% of

total assets, compared to 17% at year-end 2006.

UTMD's long term liabilities are comprised of the Ireland note payable (\$4,223 on March 31, 2007) and deferred revenue and income taxes (\$311 on March 31, 2007). As of December 31, 2006, those long term liabilities were \$4,383 and \$308, respectively. As of March 31, 2007, UTMD's total debt ratio (total liabilities/ total assets) increased to 19% from 18% on December 31, 2006. In comparison, UTMD's total debt ratio on March 31, 2006 was also 19%.

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k) Management's Outlook.

As outlined in its December 31, 2006 10-K report, UTMD's plan for 2007 is to

- 1) retain the significant U.S. market shares of key products, and continue growth of newer products;
- 2) add proprietary products helpful to clinicians through internal new product development;
- 3) continue to disproportionately increase international sales;
- 4) make effective adjustments to intracompany manufacturing operations to minimize consolidated manufacturing costs;
- 5) continue outstanding overall financial operating performance;
- 6) look for new acquisitions to augment sales growth; and
- 7) utilize current cash balances in shareholders' best long-term interest.

Other than a loss in domestic market share of its Intran Plus product, UTMD accomplished its 1Q 2007 objective for item 1). For the other items, UTMD believes it is on track after one quarter in 2007. UTMD does not announce its new product development initiatives until after it achieves applicable premarketing regulatory concurrences, or acquisition initiatives until after a transaction agreement is done.

l) Accounting Policy Changes.

The Company adopted FIN 48, Accounting for Uncertainty in Income Taxes during 1Q 2007. Please see Note 3, above.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

UTMD has manufacturing operations, including related assets, in Ireland denominated in the EURO, and sells products under agreements denominated in other Western European currencies. The EURO and other currencies are subject to exchange rate fluctuations that are beyond the control of UTMD. The exchange rate was 0.7505 EURO per USD as of March 31, 2007, and 0.8243 EURO per USD as of March 31, 2006. UTMD manages its foreign currency risk without separate hedging transactions by converting currencies to USD as transactions occur.

**Item 4. Controls and Procedures**

The company's management, under the supervision and with the participation of the Chief Executive Officer and the Principal Financial Officer, evaluated the effectiveness of the company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of March 31, 2007. Based on this evaluation, the Chief Executive Officer and Principal Financial Officer concluded that, as of March 31, 2007, the company's disclosure controls and procedures were effective.

There were no changes in the company's internal controls over financial reporting that occurred during the quarter ended March 31, 2007, that have materially affected, or are reasonably likely to materially affect, the company's internal controls over financial reporting.

## PART II - OTHER INFORMATION

**Item 1A. Risk Factors**

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

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

The following table details purchases by UTMD of its own securities during 1Q 2007.

**ISSUER PURCHASES OF EQUITY SECURITIES**

| Period            | Total Number of Shares Purchased (1) | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1) | Maximum Number (or Approximate Dollar Value) of Shares that May be Purchased Under the Plans or Programs (1) |
|-------------------|--------------------------------------|------------------------------|--|--|
| 1/01/07 - 1/31/07 | 16,900                               | \$ 32.18                     | 16,900   |  |
| 2/01/07 - 2/28/07 | -                                    | -                            | -  |  |
| 3/01/07 - 3/31/07 | -                                    | -                            | -  |  |
| Total             | 16,900                               | \$ 32.18                     | 16,900   |  |

(1) In 1Q 2007 UTMD repurchased the above shares pursuant to a continued open market repurchase program initially announced in August 1992. Since 1993 through 1Q 2007, the Company has repurchased 6,344,256 shares at an average cost of \$11.71 per share including broker commissions and fees in open market transactions. In addition, the Company conducted tender offer transactions in which it purchased an additional 2,775,742 shares at an average cost of \$9.76 per share including fees and administrative costs. In total, UTMD has repurchased over 9.1 million of its shares at an average price of \$11.11 per share since 1993. To complete the picture relating to current shares outstanding, since 1993 the Company's employees and directors have exercised and purchased 1.6 million option shares at an average price of \$8.94 per share. All options were awarded at the market value of the stock on the date of the award.

The frequency of UTMD's open market share repurchases depends on the availability of sellers and the price of the stock. The board of directors has not established an expiration date or a maximum dollar or share limit for UTMD's continuing and long term pattern of open market share repurchases.

The purpose of UTMD's ongoing share repurchases is to maximize the value of the Company for its continuing shareholders, and maximize its return on shareholder equity by employing excess cash generated by effectively managing its business. UTMD does not intend to repurchase shares that would result in terminating its Nasdaq Global Market listing.





**Item 6.**

**Exhibits**

| <u>Exhibit #</u> | <u>SEC Reference #</u> | <u>Title of Document</u>   |
|------------------|------------------------|--|
| 1                | 31                     | Certification of CEO pursuant to Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                           |
| 2                | 31                     | Certification of Principal Financial Officer pursuant to Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002   |
| 3                | 32                     | Certification of CEO pursuant to 18 U.S.C. §1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002                         |
| 4                | 32                     | Certification of Principal Financial Officer pursuant to 18 U.S.C. §1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

UTAH MEDICAL PRODUCTS, INC.  
REGISTRANT

Date: 5/9/07

By: /s/ Kevin L. Cornwell  
Kevin L. Cornwell  
CEO

Date: 5/9/07

By: /s/ Paul O. Richins  
Paul O. Richins  
Principal Financial Officer

