UTAH MEDICAL PRODUCTS INC
Form 10-K
March 16, 2007

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

**FORM 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended **December 31, 2006**

Commission File Number: **000-11178**

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

| **Utah** | **87-0342734** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| **7043 S 300 W, Midvale Utah** | **84047** |
| (Address of principal executive offices) | (Zip Code) |
| Registrant's telephone number, including area code: | **Telephone (801) 566-1200**<br>**Facsimile (801) 566-2062** |

| Securities registered pursuant to Section 12(b) of the Act: | |
|---|---|
| Title of each class | Name of each exchange on which registered |
| **Common Stock, $.01 Par Value** | **The NASDAQ Global Market** |
| **Preferred Stock Purchase Rights** | |

Securities registered pursuant to Section 12(g) of the Act:
(Title of Class)
**None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes o No **x**

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.
Yes o No **x**

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. **x**

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.
Large accelerated filer o Accelerated filer **x** Non-accelerated filer o

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter. **As of June 30, 2006, the aggregate market value of the voting and nonvoting common equity held by nonaffiliates of the registrant was $104,900,000.**

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. **As of March 10, 2007, common shares outstanding were 3,946,000.**

DOCUMENTS INCORPORATED BY REFERENCE. **The Company's definitive proxy statement for the Annual Meeting of Shareholders is incorporated by reference into Part III, Item 10, 11, 12, and 13, and 14 of this Form 10-K.**

---

INDEX TO FORM 10-K


| | | PAGE |
|---|---|---|
| PART I | | |
| Item 1 | Business | 1 |
| Item 1A | Risk Factors | 11 |
| Item 1B | Unresolved Staff Comments | 11 |
| Item 2 | Properties | 11 |
| Item 3 | Legal Proceedings | 12 |
| Item 4 | Submission of Matters to a Vote of Security Holders | 12 |
| | | |
| PART II | | |
| Item 5 | Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities | 13 |
| Item 6 | Selected Financial Data | 14 |
| Item 7 | Management's Discussion and Analysis of Financial Condition and Results of Operations | 15 |
| Item 7A | Quantitative and Qualitative Disclosures About Market Risk | 23 |
| Item 8 | Financial Statements and Supplementary Data | 24 |
| Item 9 | Changes in and Disagreements With Accountants on Accounting and Financial Disclosure | 44 |
| Item 9A | Controls and Procedures | 44 |
| Item 9B | Other Information | 44 |
| | | |
| PART III | | |
| Item 10 | Directors, Executive Officers and Corporate Governance | 45 |
| Item 11 | Executive Compensation | 45 |
| Item 12 | Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters | 45 |
| Item 13 | Certain Relationships and Related Transactions, and Director Independence | 45 |
| Item 14 | Principal Accounting Fees and Services | 46 |
| | | |
| PART IV | | |
| Item 15 | Exhibits, Financial Statement Schedules | 47 |
| | | |
| SIGNATURES | | 49 |

## PART I

### ITEM 1 - BUSINESS

Utah Medical Products, Inc. (“UTMD” or “the Company”) is in the business of producing high quality cost-effective medical devices that are predominantly proprietary, disposable and for hospital use. Success depends on 1) recognizing needs of clinicians and patients, 2) rapidly designing or acquiring economical solutions that gain premarketing regulatory concurrence, 3) reliably producing products that meet those clinical needs, and then 4) selling through

a) UTMD's own direct channels into markets where the Company enjoys an established reputation and has a critical mass of sales and support resources, or
b) establishing relationships with other medical companies that have the resources to effectively introduce and support the Company's products.

UTMD's success in providing reliable solutions comes from its proven ability to integrate a number of engineering and technical disciplines in electronics, software, mechanical packaging, instrumentation, plastics processing and materials. The resulting proprietary products represent significant incremental improvements in patient safety, clinical outcomes and/or total cost over preexisting clinical tools. UTMD's experience is that, in the case of labor-saving devices, the improvement in cost-effectiveness of clinical procedures also leads to an improvement in overall healthcare including lower risk of complications. UTMD markets a broad range of medical devices used in critical care areas, especially the neonatal intensive care unit (NICU), the labor and delivery (L&D) department and the women’s health center in hospitals, as well as products sold to outpatient clinics and physician's offices.

The opportunity to apply solutions to recognized needs results from an excellent core of practicing clinicians who introduce ideas to the Company, and key employees who are both clinical applications savvy and development engineering adept.

UTMD’s products are sold directly to end users in the U.S. domestic market by the Company’s own direct sales representatives and independent manufacturers’ representatives. In addition, some of UTMD’s products are sold through specialty distributors, national hospital distribution companies and other medical device manufacturers. Internationally, products are sold through other medical device companies and through independent medical products distributors. UTMD has representation in all major developed countries through 136 international distributors, each of which purchased at least five thousand dollars in UTMD products during 2006.

UTMD was formed as a Utah corporation in 1978. UTMD publicly raised equity capital one time in 1982. In 1994, UTMD acquired all of the tangible and intangible assets of OB Tech, Inc, a Huntington Beach, CA company, the original owner of the Cordguard® concept. In 1995, Utah Medical Products Ltd., a wholly-owned subsidiary located in Ireland, was formed to establish an international manufacturing capability. In 1997, UTMD purchased Columbia Medical, Inc. (CMI), a Redmond, Oregon company specializing in silicone injection molding, assembly and marketing vacuum-assisted obstetrical delivery systems. In 1998, UTMD acquired the neonatal product line of Gesco International, a subsidiary of Bard Access Systems and C.R. Bard, Inc. On March 8, 2000, UTMD returned to the Nasdaq Stock Market after trading on the New York Stock Exchange for about 3 years. The Company was previously listed on Nasdaq for 14 years. In 2004, UTMD acquired Abcorp, Inc., its supplier of fetal monitoring belts. The Company's corporate offices are located at 7043 South 300 West, Midvale, Utah 84047 USA. The corporate telephone number is (801) 566-1200. Ireland operations are located at Athlone Business and Technology Park, Athlone, County Westmeath, Ireland. The telephone number in Ireland is 353 (90) 647-3932. CMI’s mailing address is 1830 S.E. 1st, Redmond, Oregon 97756. The phone number in Oregon is (541) 548-7738.

1

Dollar amounts throughout this report are in thousands except per-share amounts and where noted.

PRODUCTS

Labor and Delivery/ Obstetrics:
Fetal Monitoring Accessories.
The majority of births are considered "higher risk" due to lack of prenatal care, or use of anesthesia, among other factors. In many of these births, labor may become complicated and does not progress normally. The obstetrician or perinatologist must assess progression of labor to be able to intervene with drug therapy, infuse a solution to augment amniotic fluid, or ultimately if necessary, perform an operative procedure, and then be prepared for complications immediately following childbirth.

To assist the physician in controlling the effectiveness of administration of oxytocin and monitoring effects of amnioinfusion, contraction intensities, uterine resting tones and peak contraction pressures are closely monitored through the use of an invasive intrauterine pressure catheter system. In addition, to help identify the possible onset of fetal hypoxia, correlation of the changes in fetal heart rate (FHR) relative to the frequency and duration of contractions are often electronically monitored. UTMD's intrauterine pressure (IUP) catheters provide for clinician choices from a traditional fluid-filled system to INTRAN® PLUS, the most widely accepted transducer-tipped system. In addition, adjunct FHR electrodes, leg plates, toco belts and chart paper are provided by UTMD to complete a package of fetal monitoring supplies. UTMD's IUP catheters include:

- IUP-075 and UTMD's other custom fluid-filled clear catheter kits utilize a saline-filled catheter that is placed within the uterine cavity, connected to a separate external reusable or disposable transducer. This product package, utilizing double lumen catheters, was the traditional mode of intrauterine monitoring prior to the introduction of INTRAN. An intrauterine pressure change is transmitted through the fluid column to the external pressure transducer.

- Introduced in 1987, INTRAN was the first disposable intrauterine pressure catheter that placed the pressure transducer at the pressure source within the uterine cavity. This design eliminated the complicated setup of fluid-filled systems and provided more accurate pressure waveforms. INTRAN I was discontinued in 1995 in favor of the more widely preferred INTRAN PLUS, also covered by UTMD's original INTRAN patent.

- INTRAN PLUS was introduced in 1991. The INTRAN PLUS catheter combines the transducer tip concept of INTRAN I with a refined tip design, a zeroing switch that allows the clinician to reset the reference of the monitor, and a dedicated amnio lumen which provides access to the amniotic fluid environment which may be helpful in the diagnosis and intervention of certain fetal conditions. In 1996, a viewport enhancement which allows physicians to observe amniotic fluid in a closed system was added to INTRAN PLUS. In 1997, UTMD introduced several variations to allow user preferences in tip size, zero switch location and amniotic fluid visualization.

UTMD markets tocodynamometer belts, disposable electrodes, catheters and accessories as outlined above, but does not currently market electronic monitors, the capital equipment that process the electrical signals. In addition to products currently offered, UTMD intends to continue to investigate and introduce tools that enhance fetal monitoring techniques, a core area of product development focus.

Vacuum-Assisted Delivery Systems (VAD).
UTMD's VAD Systems include CMI® patented soft silicone bell-shaped birthing cups and patented hand-held vacuum pumps which UTMD believes are the safest products available for use in vacuum-assisted operative deliveries. UTMD's patented soft silicone cup is a bell-shaped cup design that should be preferred for fetal well-being in low or outlet fetal stations with occiput anterior presentations, which represent more than 90% of the cases where VAD is indicated. Operative vaginal deliveries using forceps or vacuum-assisted delivery systems provide knowledgeable physicians with a trial vaginal operative delivery prior to a more invasive C-section intervention. Although there are

risks associated with vaginal operative deliveries which may represent 10-15% of all U.S. hospital births, the procedures are generally regarded as safer for the mother, and at least as safe for the fetus, as abdominal (Cesarean) delivery in comparable clinical situations. UTMD estimates that the VAD operative approach is used for about 7-9% of all U.S. births, with forceps continuing to lose ground as the alternative. UTMD's patented bell-shaped soft silicone TENDER TOUCH® cups enjoy a low reported complication rate compared to other vacuum cup designs, as evidenced by the FDA Medical Device Reporting System which reports specific names of products used in hospitals.

Other Obstetrical Tools.
AROM-COT™ is a finger cover with a patented prong design to rupture maternal membranes with less patient pain and anxiety. MUC-X is an aspiration device used immediately after birth to clear neonatal respiratory passages and reduce exposure to potential infections. CORDGUARD® is a patented product which unifies the multiple steps of clamping the neonate's cord close to the umbilicus, severing the cord without splattering blood, drawing a clean cord blood sample, and assisting in the removal of the placenta. CORDGUARD's sharpless, closed system reduces the risk of exposure to potentially infected blood, and consequently reduces the high cost of exposure treatment under OSHA and CDC guidelines. In addition, CORDGUARD facilitates obtaining neonatal blood that is otherwise hard to obtain safely and cleanly. Abcorp toco belts and straps for fetal monitoring by an external tocodynamometer are provided in latex-free form in several configurations.

Neonatal Intensive Care:
DISPOSA-HOOD™
The DISPOSA-HOOD is an infant respiratory hood that is used in the NICU to administer oxygen to neonates and flush CO2 (carbon dioxide) while maintaining a neutral thermal environment critical to proper physiologic responses. The DISPOSA-HOOD, placed over the infant's head, incorporates a round diffusor connection specifically designed to disperse the incoming gases along the inner surfaces of the hood, rather than allowing them to blow directly on the infant's head. The design allows more precise FIO2 (fractional inspired oxygen) control, minimizes convective heat loss from the head and provides optimum flows for elimination of CO2 by ventilation. DISPOSA-HOOD, in contrast to an incubator, allows for excellent access to and visualization of the underdeveloped infant. Because it is a disposable product, it also prevents cross-contamination.

DELTRAN® PLUS
UTMD's DELTRAN blood pressure monitoring system has been adapted specifically for use in the NICU. The streamlined version eliminates needles used for blood sampling, avoids the loss of scarce neonatal blood volume and provides a closed system that reduces the risk of infection. The system features excellent visualization of clearing volume, and one-handed use.

GESCO®
In the third quarter of 1998, UTMD acquired the neonatal product line of Gesco International. GESCO, best known for innovative silicone catheters, gained an early distinctive reputation for its focus on the special developmental needs of tiny critically-ill babies.

A class of catheters called umbilical vessel catheters (UVCs) are specially designed for administering vital medications and fluids immediately following birth through the infant's umbilical vessel into the inferior vena cava. Because of the neonate's small size and lack of vascular development, there is no better access to vital organs. The catheters are also called umbilical artery catheters (UACs) when placed in one of the umbilical arteries to measure blood pressure or monitor metabolic processes through blood analysis. In developing its UMBILI-CATH™ product line, Gesco pioneered the use of soft, biocompatible silicone catheters, helping to reduce the number of insertions required as well as other complications associated with invasive applications. UTMD has expanded the UVC product line to include catheters made from a patented thermosensitive polyurethane (Tecoflex®) that offers many of the flexibility and biocompatibility advantages of silicone after insertion, with the greater rigidity of polyurethane preferred by many clinicians for insertion. In addition, GESCO provides a convenient catheterization procedure tray of implements and supplies necessary to place UVC catheters, as well as perform other similar procedures.

The primary distinction of GESCO products is that they were developed with the special needs of the neonate in mind, not just cut-down or smaller versions of adult devices. For example, in the case of invasive catheters, the introducer, the soft rounded distal tip, mode of securing to the patient after insertion to avoid migration, luer-locking hub with minimal dead space, number of lumens, catheter radiopaque striping for visualization, variations in catheter lengths and diameters and special packaging are all features specially designed for neonates. UTMD continues to modify

product features to incorporate current neonatal nurse practitioner preferences.

The soft, biocompatible silicone catheter concept had important advantages in other applications including peripherally inserted central venous catheters (PICC lines), enteral feeding tubes, urinary drainage catheters, and chest drainage tubes. GESCO developed and marketed initial versions of all of these neonatal products. In order to keep pace with the trend of caring for smaller babies, UTMD has added smaller diameter versions of its URI-CATH® and NUTRI-CATH® products. In 2000, UTMD gained FDA premarketing clearance of a new PICC family of products specifically designed to minimize trauma to the critically ill neonate, named PICC-NATE®. The PICC-NATE product line was designed with the input of experienced neonatal nurse practitioners for use as a long-term indwelling catheter system for single-use, therapeutic central venous infusion of drug solutions, blood products or other fluids and for blood sampling. The soft, strong silicone PICC-Nate comes in two diameter sizes and two hub configurations. In early 2003, UTMD added a Tecoflex polyurethane version that offers many of the flexibility and biocompatibility advantages of silicone after insertion, with the greater rigidity of polyurethane preferred by many clinicians for insertion. In 2006, UTMD developed a unique enteral feeding-only extension set that addresses an important safety risk in the NICU - inadvertent delivery of enteral feeding intravenously. Named Nutri-Lok, the adapter ensures a secure connection to the enteral feeding catheter (Nutri-Cath) and will not mate with an IV line connector. Nutri-Lok was launched to the market in January 2007. Also in 2006, UTMD completed the replacement of all DEHP plasticizer PVC materials in its Gesco product line that may come in contact with neonatal patients, addressing another evolving safety concern related specifically to the possible maldevelopment of male neonates.

Other GESCO specialty products include a disposable peritoneal dialysis set that is a pre-assembled, sterile, closed system, called DIALY-NATE®; a patented silicone oral protection device used to prevent palatal soft tissue injury by orotracheal tubes, called PALA-NATE®; and a lumbar sampling kit with a tiny, specially-beveled needle for obtaining cerebral spinal fluid samples, called MYELO-NATE®. In 2006, UTMD introduced a second configuration of Dialy-Nate with uncoiled tubing to facilitate clinician use of a fluid/blood warmer.

GESCO’s first patented product, HEMO-NATE®, is a disposable filter designed to remove microaggregates from stored blood prior to transfusion into a neonate where any deficiency can have an overwhelmingly negative impact on a neonate’s chances for survival, given an under-developed vasculature and small total blood volume. In 2001, UTMD introduced a new filter and an improved blood bag spike for Hemo-Nate, and a needleless version.

In 2007, UTMD will continue to improve and expand its neonatal product line, seeking to reinforce a reputation as having the most developmentally-friendly NICU specialty products in the medical device industry. In addition to products already offered and being developed internally, UTMD will look to expand sales through international distribution arrangements, and through selective complementary product acquisitions.

Gynecology /Urology /Electrosurgery:

LETZ® System

The LETZ System is used to excise cervical intraepithelial neoplasia (CIN) and other lower genital tract lesions related to human papilloma virus (HPV) infections. The electrosurgery procedure with hemostasis has become the standard of care for HPV cervical infection treatment, replacing cold knife scalpel, laser and cryotherapy procedural approaches because it is economical, safe, effective, quick and easy to perform, has fewer potential side effects, and requires little physician training. A major incentive for performing the LETZ procedure is that it may be performed using local anesthetic in a physician's office, eliminating the time and expense of hospital or surgical center admittance. Most importantly clinically, in contrast to laser (tissue ablation) and cryotherapy (freezing of tissue), LETZ provides a fine tissue specimen for pathological assessment.

In mid-2006, the FDA licensed the first vaccine for HPV, which has gained widespread media attention. Such an advancement is welcome as an effective preventive measure for 70% of higher level CIN lesions which may progress into cervical cancer. UTMD believes there will be a significant time lag, however, before the new vaccine affects the approximately 500,000 current annual CIN removal procedures based on several factors: the adoption rate of the vaccine, the evolution of the disease in patients already infected and the fact that a portion of CIN-types are unaffected

by the vaccine.

UTMD's LETZ System includes patented disposable electrodes, the patented FINESSE® electrosurgical generator, and other miscellaneous components. A disposable loop electrode used to excise the tissue specimen is a pencil-like tube with a thin tungsten wire loop attached. The loop is available in varying sizes and includes a patented Safe-T-Gauge® that can be positioned so the physician can accurately colposcopically monitor the amount of tissue being excised. UTMD continues to augment its specialty electrodes. For example, the Company introduced a patented conization electrode for deep endocervical disease called C-LETZ®, designed to limit the removal of healthy tissue margins that might compromise adequate cervical function. UTMD also will continue to provide adapters and other components which allow its market-leading specialty electrodes to be used with other manufacturers' electrosurgical generators. The FINESSE electrosurgical generator is the only generator on the market that contains an integral smoke evacuator, required to filter smoke and vapors that contain potentially hazardous particulate material produced during electrosurgery.

FINESSE® Generator; Specialty Loop, Ball, and Needle Electrodes; FILTRESSE® Evacuator; Other Specialty Electrodes; Other Supplies and Gynecologic Tools.
UTMD has FDA clearance to market its electrosurgical system and tools for use in general surgery applications, including dermatology, plastic surgery and otolaryngology. In 2002, UTMD introduced a product line of ultra-fine tipped microdissection needles, called OptiMicro™ Needles. These electrosurgical needles are particularly useful in small-scale plastic and reconstructive surgery applications. FILTRESSE is a stand-alone surgical smoke filtration system that combines high filtration efficiency, low cost and convenient use in a surgical office setting. Other electrosurgery tools and accessories include disposable electrosurgical pens, dispersive pads, footswitches, filter packs, speculums, retractors, forceps, tenacula and hooks. UTMD acquired the distribution rights to a unique reusable four-way expander system which facilitates access to, and visualization of, the cervix, eliminating the need for less effective specula and lateral retractors.

EPITOME®
EPITOME is a patented electrosurgical scalpel which delivers precise performance in incision and excision with hemostasis while minimizing thermal side effects. Where rapid yet precise dissection of dense tissue is necessary, such as in mammaplasty or abdominoplasty, UTMD believes that EPITOME has no close substitute. Furthermore, an independent study concludes that the EPITOME scalpel provides a significant improvement over older devices in wound healing and patient comfort. EPITOME allows a rapid incision without countertraction, yielding limited morbidity, less post-surgical pain and cosmetically superior results. EPITOME is useful where minimization of thermal tissue injury is important but control of bleeding needed. A patented bendable version of EPITOME with a smaller active electrode was introduced in 1998. Designed to significantly reduce the chance of tissue burns due to inadvertent electrode contact and where a smaller, bent scalpel tip is needed, the bendable EPITOME is of particular value, e.g., to thoracic surgeons in harvesting the internal mammary artery during coronary artery bypass surgery, as well as to otolaryngologists for tonsillectomies or uvulapalatalplasties.

LIBERTY® System
LIBERTY is a device for the conservative treatment and effective control of urinary incontinence in women. UTMD believes that LIBERTY is the easiest-to-use, most cost effective incontinence treatment available that yields a therapeutic effect, not just a cover-up. LIBERTY consists of a battery operated electrical stimulation unit and an intravaginal electrode probe. This physiotherapy technique, which can be done in the privacy of the home, involves passive strengthening of the periurethral muscles. Pulsed, low voltage, high frequency current is applied primarily to the pudendal neuromuscular tissue causing the pelvic area muscles to contract, leading to better muscle tone. Because electrical stimulation has no known adverse side effects, LIBERTY provides women suffering from mild to moderate incontinence an effective, lower cost and lower risk alternative to more traumatic treatments such as surgery and drug therapy.

PATHFINDER PLUS™

PATHFINDER PLUS is a proprietary endoscopic irrigation device that allows a uro/gyn surgeon to precisely irrigate, clearing the visual field, with the same hand that controls the endoscope, eliminating the need for a separate assistant to irrigate without visualization. An example of a procedure where Pathfinder has found success is ureteroscopic stone ablation.

ENDOCURETTE™
In cooperation with Mayo Clinic, UTMD developed an advanced curette for uterine endometrial tissue sampling in the doctor's office. The sampling procedure is intended primarily to rule out precancer or cancerous change of the uterus in premenopausal women with abnormal uterine bleeding, or women with postmenopausal bleeding. The device is part of a class of catheters designed to be used without dilitation of the cervix and without general anesthetic. The inherent weakness of this type of device, which is related to its small size, is that it may not remove enough tissue of the endometrium for an accurate histologic assessment, in contrast to a more invasive D&C hospital procedure. The patented tip of the ENDOCURETTE was designed to obtain a more thorough tissue specimen without the need for dilitation, and without an increase in patient discomfort.

LUMIN®
LUMIN® is a patented tool developed by UTMD for reliably and safely manipulating the uterus in gynecological laparoscopic procedures. LUMIN combines the strength, range of motion and versatility of the higher end reusable instruments with the lower cost and cleanliness of the inexpensive less functional disposable instruments presently on the market, while at the same time reducing the number of tools needed to move and secure the uterus.

Blood Pressure Monitoring:
DELTRAN® Disposable Pressure Transducer (DPT)
In pressure monitoring, a transducer is used to convert physiological (mechanical) pressure into an electrical signal that is displayed on electronic monitoring equipment. UTMD developed, patented and is now distributing its disposable transducer as a stand-alone product, and as a component in sterile blood pressure monitoring kits through direct representatives and other medical companies in the U.S., as well as independent distributors and other medical device companies internationally.

The Company believes that the DELTRAN DPT which it designed nearly twenty years ago, and currently manufactures, remains the standard in terms of accuracy, reliability and ease of use. UTMD has an automated assembly line which allows the Company to effectively compete with larger suppliers on the basis of consistent quality and low manufacturing costs. Introduced in 1998, the DELTRAN PLUS provides a closed system for blood sampling, without the use of needles, reducing the risk of an unwanted infection for both the patient and the practitioner.

Pressure Monitoring Accessories, Components and Other Molded Parts.
Components included in blood pressure monitoring kit configurations include flush devices, stopcocks, fluid administration sets, caps, pressure tubing, interface cables and organizers. The Company sells similar components designed for other medical device company applications which incorporate UTMD's technologies and designs. DELTA-CAL™ is a calibration device used to check proper functioning of an arterial pressure system. In addition, UTMD sells plastic molded parts on a subcontract basis to a number of medical and non-medical device companies. UTMD believes that this practice helps better utilize its investment in fixed plant and equipment.

MARKETING

UTMD competes on the basis of its value-added technologies and cost effective clinical solutions. UTMD believes that a number of its products are strong brands because they are recognized as clinically different, and consistently reliable in achieving their intended results. The Company's primary marketing challenge is to keep its customers focused on those differences and their important clinical benefits. Access to the clinical decision-makers, together with the active involvement of clinicians in medical device purchasing decisions, is critical to the Company's success.

UTMD's specialty focus, innovation and extensive experience in its specialties are important marketing attributes which help assure its ability to successfully compete and survive in a consolidating marketplace where competitors try

to degrade UTMD’s product differences.

For U.S. hospitals, which represent about 60% of UTMD’s device sales, marketing efforts are complicated and fragmented. Although UTMD’s focus is with clinicians who take responsibility for obtaining optimal patient care outcomes, other people who are primarily administrative are often responsible for hospital purchasing decisions.

DISTRIBUTION

An important success factor in the current healthcare industry is access to customers. Although the U.S. hospital supplier environment has been consolidating as a result of group purchasing organizations (GPOs), or their equivalent, establishing long term contracts with large medical device suppliers with diverse product lines in recent years, the financial relationships and true benefits for hospitals has come under increased scrutiny, both by hospitals' managements themselves and by the government. As a potential positive factor to UTMD's future performance, the increased scrutiny may lead to an understanding consistent with UTMD's belief that hospitals are not currently saving money under the GPO contracts. In addition, the longer term overall cost of care will be substantially higher, with quality of care lower, as innovative suppliers are excluded from participating in the marketplace.

The length of time and number of administrative steps required in evaluating new products for use in hospitals has grown substantially in recent years. As a potential negative factor to future performance, as UTMD introduces new products it believes are safer and more effective, it may find itself excluded from certain customers because of the existence of long term supply agreements for existing products. UTMD may also be unable to establish viable relationships with other medical device companies that do have access to users but lack an interest in the Company's approach or demand too great a financial or administrative burden.

In the United States, UTMD sells its products through its own directly employed sales force and through selective independent manufacturer representatives. The direct representatives concentrate on applications for UTMD products where customer training and support are important. As of February 2007, the direct sales force is comprised both of "outside" representatives operating remotely in specific geographic areas, and "inside" representatives who operate by telephone from corporate offices. Direct representatives are trained to understand the medical procedures being performed within UTMD's clinical focus. Through the use of its one-on-one contacts with physicians and other clinical practitioners directly involved in patient care, the direct sales force positions UTMD to gain market leadership with solutions to clinical problems. In addition to its direct representatives, UTMD utilizes third party consulting clinical specialists to augment its customer training programs.

When hospital customers request it, UTMD provides its products through national distribution companies, also known as Med/Surg distributors. Sales to Med/Surg distributors currently comprise less than 8% of total domestic sales. In contrast, ten years ago, national distributors and independent stocking distributors in the U.S. represented more than 65% of UTMD's direct domestic Ob/Gyn business.

In addition to the above traditional sales approaches, UTMD encourages customers to take advantage of fast and easy online ordering at https://storefront.utahmed.com. In 2006, UTMD introduced this advanced "portal" website. It provides a convenient and secure method for placing orders, allows the customer to easily monitor the status of orders and shipments, and gives quick access to account information.

Additionally, UTMD sells component parts to other medical companies for use with their product lines. This OEM distribution channel effort is simply maximizing utilization of manufacturing capabilities that are otherwise needed for UTMD's primary business, and does not compete with or dilute UTMD's direct distribution and marketing programs.

Internationally, the Company sells its products through over 300 regional distributors and OEMs (other medical device manufacturers). The international business is driven by the initiative and resourcefulness of those independent distributors. UTMD's Internet website **www.utahmed.com** is a frequent conduit for international customer inquiries.

NEW PRODUCT DEVELOPMENT

New product development has been a key ingredient to UTMD's market identity. Product development takes three interrelated forms: 1) improvements, enhancements and extensions of current product lines in response to clinical

needs or clinician requests, 2) introduction of new or augmented devices that represent a significant improvement in safety, effectiveness and/or cost of care, and 3) acquisitions of products or technology from others.

Because of UTMD's reputation as a focused product developer, its financial strength and its established clinician user base, it enjoys a substantial inflow of new product development ideas. Internal development, joint development, product acquisitions and licensing arrangements are all included as viable options in the investigation of opportunities. Only a small percentage of ideas survive feasibility screening. For internal development purposes, projects are assigned to a project manager who assembles an interdisciplinary, cross-functional development team. The team's objective is to have a clinically acceptable, manufacturable and FDA released product ready for marketing by a specific date. Approximately ten projects on the average, depending on the level of resources required, are underway at UTMD at any given time. More than 50% of assigned projects do not succeed in attaining a product that meets all of the Company's criteria. In particular, this includes a product that is highly reliable, easy to use, cost-effective, safe, useful and differentiated from the competition. Once a product is developed, tooled, fully tested and cleared for marketing by the FDA, there remains a reasonable probability it cannot be successfully marketed for any number of reasons, not the least of which is being beaten to the market by a competitor with a better solution, or not having access to users because of limitations in marketing and distribution resources or exclusionary contracts of GPOs.

UTMD's current product development projects are in three areas of focus: 1) labor & delivery, 2) neonatal intensive care, and 3) specialized procedures for the assessment and treatment of cervical/uterine disease. Internal product development expenses are expected to be in the range of 1-2% of sales in 2007. In 2006, UTMD spent $316 on internal product development activities, or 1.1% of sales. In 2005 and 2004, internal new product development expenses were $320 (1.2% of sales) and $292 (1.1% of sales), respectively.

EMPLOYEES

At December 31, 2006, the Company had 204 employees, and an additional six contract employees. The contract employees represent UTMD's desire to provide handicapped persons additional work opportunities, hired through the Utah state-supported Work Activity Center. The average tenure of UTMD's employees is about nine years, which conveys an important benefit due to the level of training required to produce consistently high quality medical devices. The Company's continued success will depend to a large extent upon its ability to retain skilled employees. No assurances can be given that the Company will be able to retain or attract such employees in the future, although management is committed to providing an attractive environment in which reliable, creative and high achieving people wish to work.

To the best of the Company's knowledge, none of the Company's officers or directors is bound by restrictive covenants from prior employers that limit their ability to contribute to UTMD's programs. All professional employees sign a code of conduct and a confidentiality and non-compete agreement as a condition of employment, and as consideration for receipt of stock option awards and participation in the management bonus program. All employees participate in performance-based bonus programs. None of the Company's employees is represented by labor unions or other collective bargaining groups.

PATENTS, TRADEMARKS AND TECHNOLOGY LICENSES

The Company owns or exclusively licenses twenty-nine unexpired patents, and is the licensee of certain other technology. There can be no assurance, however, that patents will be issued with respect to any pending applications, that marketable products will result from the patents or that issued patents can be successfully defended in a patent infringement situation. The Company also owns a number of trademarks which have achieved brand recognition.

The ability of the Company to achieve commercial success depends in part on the protection afforded by its patents and trademarks. However, we believe that the protections afforded by patents and trademarks are less important to UTMD's business, taken as a whole, than a medical device's incremental clinical utility, which may be dominated by a number of other factors including relative cost, ease of use, ease of training/adoption, perceived clinical value of different design features, risk of use in applicable procedures, the reliability of achieving a desired outcome in the

hands of different users and market access to potential users. In cases where competitors introduce products that may infringe on UTMD's technology, the Company has an obligation to its shareholders to defend its intangible property to the extent that it can afford to do so and that it is material to the Company's success. The Company must also defend itself when competitors allege that UTMD may be infringing their technology.

As a matter of policy, UTMD has acquired and will continue to acquire the use of technology from third parties that can be synergistically combined with UTMD proprietary product ideas. During 2006, ongoing royalties included in cost of goods sold were $2. Other royalties have been previously paid as a lump sum, or are incorporated into the price of acquisitions, or into the cost of purchased components which practice certain patents of third parties. Also as a matter of policy, UTMD licenses its proprietary technology to others in circumstances where licensing does not directly compete with UTMD's own marketing initiatives. During 2006, the Company received $450 in royalty income, the same as in 2005 and 2004. Based on the expiration dates of the patents for which the current royalty income is being received, UTMD expects royalties of $450, $391, $184 and $92 in 2007, 2008, 2009 and 2010, respectively. As a result of receiving royalties on its patents, UTMD’s future financial performance may depend on the marketing ability of other companies that license UTMD’s technology.

GOVERNMENT REGULATION

UTMD's products and manufacturing processes are subject to regulation by the U.S. Food & Drug Administration (“FDA”), as well as other regulatory bodies globally. The FDA has authority to regulate the marketing, manufacturing, labeling, packaging and distribution of medical devices in the U.S. In addition, requirements exist under other federal laws and under state, local and foreign statutes that may apply to the manufacturing and marketing of the Company's products.

All manufacturers of medical devices must register with the FDA and list all medical devices produced by them. The listing must be updated annually. In addition, prior to commercial distribution of some devices for human use, a manufacturer must file a notice with the FDA, setting forth certain information regarding the safety and effectiveness of the device that is acceptable in content to the FDA.

Devices which are classified in Class I are subject only to the general controls concerning adulteration, misbranding, good manufacturing practices, record keeping and reporting requirements. Devices classified in Class II must, in addition, comply with special controls or performance standards promulgated by the FDA.

All of UTMD’s present products are Class I or Class II devices. The Company is in compliance with all applicable U.S. regulatory standards including CFR Part 820, the FDA Quality System Regulation (QSR) effective in 1997, also known as cGMPs (current good manufacturing practices).

In 1994, UTMD received certification of its quality system under the ISO 9001/EN 46001 standards (“ISO” stands for “International Organization of Standardization”) which it maintained until December 2003. In October 2003, UTMD’s Utah facility was certified under the more stringent ISO 13485 standard for medical devices. UTMD’s Ireland facility was certified under the concomitant ISO 13488 standard. In July 2006, both facility ISO certifications were upgraded to the even more stringent ISO 13485:2003 standards, which continue to be maintained. UTMD remains on a continuous periodic audit schedule by its independent notified body in order to stay current with international regulatory standards, and retain its certification. The most recent audit was conducted in February 2007. UTMD has received formal product certifications allowing the use of the CE Mark (demonstrates proof of compliance with the European Community’s ISO standards) for essentially all of its products. The U.S. FDA QSR was developed in harmony with the ISO standards.

SOURCES AND AVAILABILITY OF RAW MATERIALS

Most of the components which the Company purchases from various vendors are readily available from a number of sources. Alternative sourcing of various components is continually underway. Vendors are qualified by Corporate Quality Assurance. The Company has a vendor quality monitoring program that includes routinely checking incoming material for conformance to specifications, as required per written procedures.

9

EXPORTS

Revenues from customers outside the U.S. in 2006 were $7,390 (26% of total sales), compared to $6,392 (23% of total sales) in 2005 and $6,028 (23% of total sales) in 2004. Blood pressure monitoring products represented 58% of international sales in 2006, compared to 66% in 2005 and 67% 2004. International Ob/Gyn and neonatal product sales were $3,109 in 2006, compared to $2,191 in 2005 and $2,019 in 2004. For financial information by geographical area, please see Notes 1, 4 and 10 to the Consolidated Financial Statements.

UTMD regards the international marketplace as an important element of its growth strategy. UTMD is keenly aware that not only are international markets different from the U.S. market, but also that each country has its own set of driving influences that affects the dynamics of the nature of care given and medical devices used. In 1996 UTMD completed construction of a manufacturing facility in Athlone, County Westmeath, Ireland. The facility offers a number of advantages: 1) from a marketing point of view, better response to European Union customers, including a better understanding of customized needs, less costly distribution and duty-free access to over 350 million patients; 2) from a regulatory point of view, faster new product introductions; and 3) from a manufacturing point of view, reduced dependence on one manufacturing site and increased capacity for existing U.S. facilities.

BACKLOG

As a supplier of primarily disposable hospital products, the nature of UTMD’s business necessitates being very responsive to customer orders and delivering products quickly. Virtually all direct shipments to end users are accomplished within one week of receipt of customer purchase order. Backlog shippable in less than 90 days was $906 as of January 1, 2007, $910 as of January 1, 2006 and $653 as of January 1, 2005.

SEASONAL ASPECTS

The Company's business is generally not affected by seasonal factors.

PRODUCT LIABILITY RISK MANAGEMENT

The risk of product liability lawsuits is a negative factor in the medical device business because products are frequently used in inherently life threatening situations to help physicians achieve a more positive outcome than what might otherwise be the case. In any lawsuit against a company where an individual plaintiff suffers a permanent physical injury, a possibility of a large award for damages exists whether or not a causal relationship exists. However, no such damages have been awarded against UTMD in its 28 year history.

UTMD is self-insured for product liability risk and reserves funds against its current performance on an ongoing basis to provide for its defense should any lawsuits be filed. The best defense the Company believes that it has is the consistent conformance to specifications of its proven safe and effective products. In the last fourteen years, UTMD has been named as a defendant, along with each attending physician and hospital, in four product liability lawsuits. All four were related to operative vaginal deliveries where a UTMD VAD birthing cup or hand pump was used by the surgeon. The VADS products in all four cases did conform to specifications. UTMD was ultimately dismissed as a defendant in the lawsuits, and legal costs were not material to performance. During the same fourteen year period of time, in which more than 17 million UTMD finished devices were used, no other UTMD product was the subject of a product liability lawsuit. There are currently no product liability lawsuits in which UTMD is a defendant, and there have been no product liability lawsuits during the last three years.

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 management based on information currently available. When used in this document, the words “anticipate,” “believe,” “project,” “estimate,” “expect,” “intend” and similar expressions, as t 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 stated throughout the 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. Financial estimates are subject to change and are not intended to be relied upon as predictions of future operating results, and the Company assumes no obligation to update or disclose revisions to those estimates.

**ITEM 1A - RISK FACTORS**

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; UTMD’s ability to efficiently and responsively manufacture its products, including the possible effects of lack of performance of suppliers; opportunities in gaining access to important global distribution channels; budgetary constraints; the timing of regulatory approvals for newly developed products; regulatory intervention in current operations; and third party reimbursement of health care costs of patients.

Negative factors that may adversely impact future performance include managed care reforms or hospital group buying agreements that may limit physicians’ ability to choose certain products or procedures, new products introduced by other companies that displace UTMD’s products, new product regulatory approval delays, changes in the Company’s relationships with distribution partners, and loss of key personnel.

The length of time and number of administrative steps required in adopting new products for use in hospitals has grown substantially in recent years. As a potential negative factor to future performance, as UTMD introduces new products it believes are safer and more effective, it may find itself excluded from certain customers because of the existence of long term supply agreements for existing products. UTMD may also be unable to establish viable relationships with other medical device companies that do have access to users but lack an interest in the Company’s approach or present unreasonable burdens.

Risk factors, in addition to the risks outlined in the previous paragraph and elsewhere in this report 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 and infringement claims of 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 or may not require external funding.

**ITEM 1B - UNRESOLVED STAFF COMMENTS**

None

**ITEM 2 - PROPERTIES**

Office and Manufacturing Facilities.
The Company's current operations are located in a 100,000 square foot facility in Midvale, Utah, a suburb of Salt Lake City, a 20,000 square foot facility in Redmond, Oregon, and a 77,000 square foot facility in Athlone, County Westmeath, Ireland. UTMD owns its property and facilities in Utah and Ireland, with the exception of a long-term lease on one section of its Midvale parking lot. The Oregon facility is leased.

UTMD is a vertically-integrated manufacturing company. Capabilities include silicone and plastics-forming operations including injection molding, insert and over-molding, thermoforming and extrusion; sensor production; manual and automated assembly of mechanical, electrical and electronic components; parts printing; various testing modalities; advanced packaging in clean room conditions; and a machine shop for mold-making and fabrication of assembly tools and fixtures. Capabilities also include an R&D laboratory for both electronic and chemical processes, software development resources, communications and computer systems networked real time internationally, and administrative offices.

**ITEM 3 - LEGAL PROCEEDINGS**

The Company may be a party from time to time in litigation incidental to its business. Presently, there is no litigation for which the Company believes the outcome may be material to its financial results.

Notwithstanding the foregoing statement, the Company has been involved since 2005, and remains involved, as a defendant in a patent infringement lawsuit with Clinical Innovations Associates (CIA), founded by W. Dean Wallace, formerly President and CEO of UTMD from 1987 to 1992. CIA alleges that a version of Intran Plus with a clear portion of its catheter body infringes U.S. Patent No. 6,231,524, with filing date of May 11, 1999. Intran Plus was first marketed in 1991 under the supervision of Dr. Wallace while he was employed by UTMD, predating organization of, and any patent application by, CIA. The only difference between the original Intran Plus version and the alleged infringing version is a clear catheter body. UTMD believes that clear catheters are obvious in the art in medical device industry. An example of prior art is UTMD’s IUP-075, a dual lumen IUPC with a clear body, which was released for marketing by Dr. Wallace while employed by UTMD. UTMD believes the case is without merit, but needs to protect its reputation from unwarranted claims of a direct competitor. Although the outcome of the lawsuit is not expected to be material to financial results because the number of Intran Plus catheters with clear bodies has been relatively small, the prosecution of the case through discovery and a trial may have some dilutive effect on 2007 financial performance. In 2006, UTMD had $154 in litigation expenses related to this lawsuit which were part of G&A expenses. The trial is currently scheduled for September 2007. If the court rules in UTMD’s favor and agrees that the lawsuit is frivolous, UTMD may be entitled to reimbursement of its legal expenses.

**ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

No matter was submitted to a vote of security holders through the solicitation of proxies or otherwise during the fourth quarter of the fiscal year covered by this report.

## PART II

### ITEM 5 - MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information.
UTMD's common stock trades on the NASADQ Global Market (symbol:UTMD). The following table sets forth the high and low sales price information as reported by NASDAQ for the periods indicated:

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | High | Low | High | Low |
| 1st Quarter | $ 33.50 | $ 28.33 | $ 22.80 | $ 20.06 |
| 2nd Quarter | 32.10 | 29.50 | 23.50 | 20.20 |
| 3rd Quarter | 33.10 | 28.25 | 24.88 | 22.80 |
| 4th Quarter | 34.96 | 31.51 | 32.80 | 24.50 |

Stockholders.
The approximate number of beneficial stockholders of UTMD’s common stock as of March 10, 2007 was 2,800.

Dividends.
On May 10, 2004, UTMD announced that it would resume paying a quarterly cash dividend. The following sets forth cash dividends declared since May 10, 2004:

| Record Date | Payable Date | Per Share Amount |
|---|---|---|
| June 16, 2004 | July 5, 2004 | $ 0.15 |
| September 16, 2004 | October 5, 2004 | 0.15 |
| December 16, 2004 | January 5, 2005 | 0.15 |
| March 16, 2005 | April 5, 2005 | 0.15 |
| June 17, 2005 | July 5, 2005 | $ 0.155 |
| September 16, 2005 | October 5, 2005 | 0.155 |
| December 16, 2005 | January 5, 2006 | 0.17 |
| March 16, 2006 | April 5, 2006 | 0.18 |
| June 16, 2006 | July 5, 2006 | 0.19 |
| September 15, 2006 | October 4, 2006 | 0.20 |
| December 14, 2006 | January 4, 2007 | 0.21 |
| 2004 total paid | | $ 0.30 |
| | | $ 0.61 |

| | |
|---|---|
| 2005 total paid | |
| 2006 total paid | $ 0.74 |

Issuer Purchases of Equity Securities.
The following table details purchases by UTMD of its own securities during fourth quarter 2006.

| 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 Yet be Purchased Under the Plans or Programs (1) |
|---|---|---|---|---|
| 10/01/06 - 10/31/06 | - | $ - | - | see (1) below |
| 11/01/06 - 11/30/06 | - | - | - | |
| 12/01/06 - 12/31/06 | 9,801 | 32.81 | 9,801 | |
| Total | 9,801 | $ 32.81 | 9,801 | |

(1) In fourth quarter 2006 UTMD repurchased an aggregate of 9,081 shares of its common stock at an average cost of $32.81 per share pursuant to a continued open market repurchase program instituted in August 1992. Since 1993 through 2006, the Company has repurchased 6,327,356 shares at an average cost of $11.65 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 $11.07 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 $8.88 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 long term program of open market share repurchases.

The purpose of UTMD's 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 from effectively managing its business. UTMD does not intend to repurchase shares that would result in terminating its NASDAQ Global Market listing.

**ITEM 6 - SELECTED FINANCIAL DATA**

Dollar amounts are in thousands, except per share data.

The following selected consolidated financial data of UTMD and its subsidiaries for the five years ended December 31, 2006, are derived from the audited financial statements and notes of UTMD and its subsidiaries, certain of which are included in this report. The selected consolidated financial data should be read in conjunction with UTMD's Consolidated Financial Statements and the Notes included elsewhere in this report.

| | Year Ended December 31 | | | | |
|---|---|---|---|---|---|
| | 2006 | 2005 | 2004 | 2003 | 2002 |
| Net Sales | $ 28,753 | $ 27,692 | $ 26,485 | $ 27,137 | $ 27,361 |
| Net Income | 8,168 | 7,547 | 10,220 | 20,761 | 7,165 |
| Earnings Per Common Share (Diluted) | 2.02 | 1.80 | 2.19 | 4.25 | 1.36 |
| Total Assets | 44,187 | 41,642 | 41,262 | 49,694 | 23,387 |
| Working Capital | 25,471 | 22,683 | 20,194 | 21,405 | 5,437 |
| Long-term Debt | 4,824 | 5,336 | - | - | 4,956 |
| Cash Dividends Per Common Share | 0.74 | 0.61 | 0.30 | None | None |

| | Quarterly Data for 2006 | | | |
|---|---|---|---|---|
| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
| Net Sales | $ 7,104 | $ 7,293 | $ 7,001 | $ 7,355 |
| Gross Profit | 4,007 | 4,077 | 3,971 | 4,092 |
| Net Income | 2,036 | 2,059 | 2,003 | 2,070 |
| Earnings Per Common Share (Diluted) | .50 | .51 | .50 | .51 |

Quarterly Data for 2005

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|---|---|---|---|
| Net Sales | $ 6,652 | $ 7,028 | $ 7,001 | $ 7,011 |
| Gross Profit | 3,734 | 4,022 | 4,014 | 3,983 |
| Net Income | 1,969 | 1,887 | 1,789 | 1,903 |
| Earnings Per Common Share (Diluted) | .46 | .45 | .44 | .46 |

**ITEM 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Dollar amounts are in thousands except per-share amounts, and where noted.

The following comments should be read in conjunction with the accompanying financial statements.

Productivity of Assets and Working Capital.

a) Assets. Year-end 2006 total assets were $44,187, compared to $41,642 in 2005. The increase was due essentially to an increase in cash and investment balances allowed by a substantial decrease in inventories and receivables coupled with continued excellent operating profitability. The 2006 productivity of total assets (= average total asset turns; total sales divided by average total assets for the year) was consistent with 2005, with both years' productivity diluted by the large cash-equivalent balances. Year-end 2006 and 2005 cash and investment balances were $21,049 and $17,453 respectively, representing 48% and 42% of total assets. Year-end cash and investment balances increased $3,596 after UTMD paid $2,902 in shareholder dividends, $2,094 in share repurchases, $2,700 to meet optionee tax withholding requirements on options exercised in return for option shares, and $1,057 in principal repayments for the Ireland loan. Excluding average cash and investment balances, average total asset turns in 2006 and 2005 were 1.22 and 1.14 respectively. In 2007, total assets excluding cash and investment balances will continue to be substantially less than annual sales, which benefits return on average shareholders equity (ROE). Improvement in total asset turns (including cash and investments) will depend on the timing of deployment of excess cash and investment balances.

Property, plant and equipment (PP&E) assets are comprised of Utah, Oregon and Ireland manufacturing molds, production tooling and equipment, test equipment, computer/ communications equipment and software, and the Utah and Ireland facilities. UTMD leases the Oregon facility as a result of the 1997 CMI acquisition, and a portion of its Midvale, Utah parking lot. In 2006, net PP&E (depreciated book value) increased $171 despite the fact that actual depreciation of assets exceeded new capital expenditures by $251. The increase in net PP&E was due to currency exchange translation of book value of Ireland assets which appreciated in U.S. dollar value terms because of a weaker USD compared to the Euro. Even with the weaker USD, consolidated PP&E balances increased at a slower rate than the increase in sales, resulting in significantly higher PP&E turns. The current book value of consolidated PP&E is 34% of actual acquisition cost, which means that the continued productivity of the company's fixed assets will remain a source of future profitability, given that PP&E is in good working order and capable of supporting increased sales activity. In 2007, depreciation of fixed assets should again equal or exceed new PP&E purchases required to sustain current operations.

Average inventory turns in 2006 increased to 4.0 from 3.9 in 2005, meeting management's continuing objective for inventory turns for the first time since losing the Baxter OEM supply business ten years ago. The improved turns were the result of a combination of 4% higher sales and 8% lower inventories compared to the end of 2005. Net (after allowance for doubtful accounts) year-end trade accounts receivable (A/R) balances increased $37 or about 1% at the same time that 2006 sales activity increased 4%, improving average days in A/R on December 31, 2006 to 43 days, based on 4Q 2006 shipments, compared to 45 days at the end of 2005. This performance remained well within management's continuing objective of 55 days. A/R over 90 days from invoice date at year-end 2006 were 6% of A/R, up from 5% at the end of the prior year. The Company believes the older A/R will be collected or are within its reserve balances for uncollectible accounts.

Working capital at year-end 2006 was $25,030 compared to $22,230 at year-end 2005. Both of these amounts exceed working capital needs for growth in normal operations. UTMD's current ratio increased to 8.4 from 7.1, mainly due to increases in cash and investments. Since the large majority of the working capital balance is excess cash (and cash investments), the current ratio going forward in 2007 will depend primarily upon the timing and extent of use of existing cash and investment balances. The other current asset and current liability components of working capital are expected to remain within management objectives, consistent with 2006 and earlier years.

15

Net (after accumulated amortization) intangible assets, which are comprised of goodwill resulting from acquisitions and the costs of obtaining patents and other intellectual property including technology rights, were $7,445 at the end of 2006 compared to $7,624 sat the end of 2005. The goodwill balance of $7,191, reduced 24% from time of acquisition, is the result of three acquisitions in 1997, 1998 and 2004 which were made in cash at conservative valuations. The reduction was goodwill amortization as a result of UTMD using previous GAAP through 2001 for the purchase method of acquisition accounting. Under current GAAP, goodwill is not expensed unless and until the market value of the acquired entity becomes impaired. The three acquisitions continue to be viable parts of UTMD's overall business, representing 33% of total sales in 2006. UTMD does not expect the goodwill value of the acquisitions to become impaired in 2007. Other intangible assets decreased $179 in 2006. Of that decline, $130 resulted from sale of intellectual property rights, which had no impact on the income statement. The remaining $49 decrease was the result of amortization expense. Net intangible assets at the end of 2006 represented 17% of total assets compared to 18% at the end of 2005.

Liabilities. UTMD's current liabilities decreased $235, and total liabilities decreased $713, from the end of 2005 to the end of 2006. The resulting 2006-ending total debt ratio was 18% of total assets, down from a total debt ratio of 21% at the end of 2005. Current liabilities declined because of a normal fluctuation in timing of payments of accounts payable and accrued liabilities. The long term Ireland note payable, which is denominated in Euros, declined just $512 in book value despite actual principal payments of $1,057 because of the decline in the value of the USD. In Euros, the note declined from €4,500 at the beginning of 2006 to €3,672 at the end of 2006. As a reminder to shareholders, the note was initiated in December 2005 to finance repatriation of profits achieved in Ireland since 1996 under The American Jobs Creation Act of 2004. UTMD Ltd. plans to repay this note from profits generated in Ireland over about the next four years. In addition to liabilities, UTMD has operating lease and purchase obligations described in note 7.

Results of Operations.
a) Revenues. Global consolidated sales increased 4% in 2006 compared to the prior year. Foreign (international) sales increased 16%. Increases and decreases in U.S. (domestic) sales categories essentially offset each other.

Domestic sales were $21,363 in 2006 compared to $21,301 in 2005 and $20,456 in 2004. UTMD divides its domestic sales into two distribution channels: "direct sales" which are sales to end user customers by UTMD's direct sales force, independent commissioned sales reps, specialty distributors and national hospital distribution companies, and "OEM sales" which are component sales to other companies where products are packaged and resold as part of another company's finished product offerings. As a percentage of total domestic sales, direct sales in 2006 were 94% of domestic sales compared to 94% in 2005 and 93% in 2004. Therefore domestic OEM sales were 6% of domestic sales in both 2006 and 2005, and 7% of domestic sales in 2004. 2006 domestic OEM sales were up 6% at $1,342 in 2006, compared to $1,268 in 2005 and $1,491 in 2004. Domestic direct sales in 2006 were essentially the same as in 2005, and represented 70% of global consolidated sales in 2006 compared to 72% in both 2005 and 2004.

International sales were $7,390 in 2006 compared to $6,392 in 2005 and $6,028 in 2004, and were 26% of global consolidated sales in 2006 compared to 23% in both 2005 and 2004. Of the 2006 international sales, 53% were distributed to customers in Europe, compared to 55% in 2005 and 60% in 2004. Ireland operations (UTMD Ltd.) shipped 52% of international sales (in USD terms) in 2006, compared to 57% in 2005 and 59% in 2004. UTMD Ltd. 2006 shipments, including intercompany sales of subassemblies to Midvale, were up 12% in Euro terms and up 13% in USD terms compared to 2005.

UTMD groups its sales into four general product-line categories: 1) obstetrics, comprised of labor and delivery management tools for monitoring fetal and maternal well-being, for reducing risk in performing difficult delivery procedures and for improving clinician and patient safety; 2) gynecology/ electrosurgery/ urology, comprised of tools for gynecological procedures associated primarily with cervical/ uterine disease including LETZ, endometrial sampling, diagnostic laparoscopy, and other MIS procedures; specialty excision and incision tools; conservative urinary incontinence therapy devices; and urology tools; 3) neonatal care, comprised of devices that provide

developmentally-friendly care to the most critically ill babies including providing vascular access, administering vital fluids, maintaining a neutral thermal environment, providing protection and assisting in specialized applications; and 4) blood pressure monitoring/ accessories/ other, comprised of specialized components as well as molded parts sold on an OEM basis to other companies. In these four categories, UTMD’s primary revenue contributors often enjoy a dominant market share and may have differentiated product features protected by patents.

Global revenues by product category:

| | 2006 | % | 2005 | % | 2004 | % |
|---|---|---|---|---|---|---|
| Obstetrics | $ 9,371 | 33 | $ 9,774 | 36 | $ 10,918 | 41 |
| Gynecology/ Electrosurgery/ Urology | 6,106 | 21 | 5,397 | 19 | 5,142 | 19 |
| Neonatal | 7,073 | 25 | 6,475 | 23 | 4,134 | 16 |
| Blood Pressure Monitoring and Accessories* | 6,203 | 21 | 6,046 | 22 | 6,292 | 24 |
| Total: | $ 28,753 | 100 | $ 27,692 | 100 | $ 26,485 | 100 |

*includes molded components sold to OEM customers.

International revenues by product category:

| | 2006 | % | 2005 | % | 2004 | % |
|---|---|---|---|---|---|---|
| Obstetrics | $ 764 | 10 | $ 593 | 9 | $ 774 | 13 |
| Gynecology/ Electrosurgery/ Urology | 1,820 | 25 | 1,199 | 19 | 966 | 16 |
| Neonatal | 525 | 7 | 400 | 6 | 278 | 5 |
| Blood Pressure Monitoring and Accessories* | 4,281 | 58 | 4,200 | 66 | 4,010 | 66 |
| Total: | $ 7,390 | 100 | $ 6,392 | 100 | $ 6,028 | 100 |

*includes molded components sold to OEM customers.

As a brief explanation of revenues in the above tables,
1. Of the $403 decline in total obstetrics sales in 2006, $108 was from lower sales of vacuum-assisted delivery systems (VADS), a 9% decline, and $320 from lower IUPC sales, a 4% decline. The lower VADS and IUPC sales resulted primarily from a trend in obstetrics practice that favors abdominal operative deliveries over vaginal operative deliveries because of medical malpractice litigation risk, and increased competition including effects of GPO product bundling agreements. Cheaper priced, less clinically-effective products represent significant competition where hospital administrators are constrained by GPO contracts or may not take the total cost of care into consideration, including increased risk of complications and utilization rates.

2. Gynecology/ electrosurgery/ urology product sales increased $711 or 13%, with 80% of the increase coming from higher electrosurgical generator and electrode sales.

3. Consolidated global neonatal product sales increased $598 or 9% in 2006. The international portion of neonatal product sales grew 31%, and represented 21% of the increase.

4. Domestic blood pressure monitoring and accessories (BPM) sales increased 4%, while international BPM sales increased 2%.

Looking forward to 2007, UTMD's improvement in sales depends on its continued ability to maintain 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 through the use of anticompetitive GPOs contracts, 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. Excluding the possibility of addition of a product line with established sales, management projects a 3% overall revenue increase in 2007.

b) Gross Profit. UTMD's 2006 gross profit, the surplus after subtracting costs of manufacturing, inspecting, packaging, sterilizing and shipping products (CGS) from net revenues, was $16,147 compared to $15,753 in 2005 and

$15,066 in 2004. Gross profit margins (GPMs), gross profits expressed as a percentage of net sales, were 56.2% in 2006 compared to 56.9% in both 2005 and 2004. The lower GPM in 2006 reflects inflation in wages and raw material cost, particularly in Ireland where at the same time costs increased, unit sales prices declined in USD terms because of a weaker Dollar. In addition, from a sales channel mix perspective, the 2006 increase in sales came predominantly from international sales at relatively lower than average unit selling prices. 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 increased sales in 2007 will help mitigate a continuing expected increase in incremental direct material and labor costs together with some competitive pressure on prices. Also, the company will move much of the intercompany work performed in Ireland during the last few years back to the U.S. and offset the loss of that work in Ireland with expected continued increases in international trade sales, yielding an overall GPM in 2007 comparable to 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, allocations of fixed manufacturing overhead expenses cannot be meaningfully allocated between direct and OEM sales. Therefore, UTMD does not report GPM by sales channels.

c) 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 were $5,312 in 2006, compared to $6,516 in 2005 and $5,807 in 2004. In 2004, operating profit includes other operating income, net of associated expenses, resulting from UTMD's patent infringement victory over Tyco. Litigation expenses are included as part of G&A expenses. The decline in total operating expenses in 2006 was due primarily to the favorable conclusion of the FDA litigation in late 2005, as noted in the table below:

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| R&D expenses | $ 316 | $ 320 | $ 292 |
| S&M expenses | 2,272 | 2,214 | 2,253 |
| G&A - FDA litigation expenses | - | 1,527 | 850 |
| G&A - stock option expense | 140 | - | - |
| G&A - all other expenses | 2,585 | 2,454 | 2,412 |
| G&A expenses - total | 2,725 | 3,981 | 3,262 |
| Total operating expenses | $ 5,312 | $ 6,516 | $ 5,807 |

Operating profits in 2006 were $10,835. UTMD's operating profit margin (operating profits divided by total sales) was 37.7% in 2006, compared to 33.4% in 2005 and 57.8% in 2004. The 2005 and 2004 margins do not correlate to sales since there were substantial expenses and/or other income in those two years that were unrelated to sales. Excluding the other operating income related to patent infringement damages and FDA litigation expenses, operating profits would have been $10,764 and $10,109, and operating profit margins would have been 38.9% and 38.2%, in 2005 and 2004 respectively, which management believes is a better measure of operating profits relative to sales activity in the prior two years. Looking forward to 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 2007 operating profit margin consistent with 2006.

i) S&M expenses: S&M expenses are the costs of communicating UTMD's differences and product advantages, providing training and other customer service in support of the use of UTMD's solutions, attending clinical meetings and medical trade shows, processing orders and funding GPO fees. 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. The largest component of S&M expenses is the cost of directly employing representatives that provide customer support coverage across the U.S. As a percent of total sales, S&M operating expenses were 7.9% in 2006, 8.0% in 2005 and 8.5% in 2004. In 2007, UTMD intends to continue to manage S&M expenses to less than 9% of total sales.

ii) R&D expenses: R&D expenses include the costs of investigating clinical needs, developing innovative concepts, testing concepts for viability, validating methods of manufacture, completing premarketing regulatory documentation and other activities required for design control, responding to customer requests for product enhancements, and assisting manufacturing engineering on an ongoing basis in developing new processes or improving existing processes. As a percent of sales, R&D expenses were 1.1% in 2006 compared to 1.2% in 2005 and 1.1% in 2004. In 2007, UTMD will opportunistically invest in R&D in order to reinvigorate its product development pipeline.

18

iii) G&A expenses: G&A expenses include the “front office” functional costs of executive management, finance and accounting, corporate information systems, human resources, shareholder relations, risk management, protection of intellectual property, and legal costs. Starting in 2006, G&A expenses also included estimated stock option compensation expense, which was $140, as required by new accounting rules. In addition to employing the personnel required to coordinate or manage those “front office” functions, G&A expenses include outside director fees and costs, outside legal counsels’ and litigation experts’ fees, independent accounting audit fees including auditing for internal controls under SOX 404, 401(k) Plan administration, NASDAQ exchange fees, write-offs of uncollectible receivables, general business insurance and corporate contributions to charitable organizations. Aggregate G&A expenses as a percent of sales were 9.5% in 2006, 14.4% in 2005 and 12.3% in 2004. G&A expenses excluding all litigation expenses were 8.7%, 8.4% and 9.1% of sales in 2006, 2005 and 2004, respectively, which may provide a clearer comparison of G&A expense ratios. Total litigation expenses in the three years of 2004-2006 were $2,728, of which the expenses associated with the unwarranted FDA lawsuit were $2,453. The $275 balance was due to expenses associated with defense or prosecution of patent infringement claims. There were no litigation expenses during the three years related to product liability. UTMD plans to hold G&A expenses at a level about 9% of 2007 sales, excluding any currently unexpected significant litigation costs.

iv) Other operating income: Other operating income in 2004 resulted from UTMD’s patent infringement victory over Tyco. In January 2004, the Company received a payment of $30,944 in damages and interest resulting from a 2002 District Federal Court judgment, and a post judgment settlement. The Company recognized other operating income of $6,060 in first quarter 2004 and $23,992 (net of expenses) in fourth quarter 2003. In 2007, an unexpected favorable result would occur if the government does the right thing and accepts UTMD’s claims for damages for the FDA’s abuse of process in 2001-2005.

d) Non-operating Income, Non-operating Expense and EBT. Non-operating income includes royalties from licensing UTMD’s technology to other companies, rent from leasing underutilized property to others, income earned from investing the Company’s excess cash and gains or losses from the sale of assets, offset by non-operating expenses which include interest expenses and bank fees. Non-operating income was $1,582 in 2006, $977 in 2005 and $798 in 2004. The significant increase in 2006 resulted from capital gains, corporate dividends and interest from UTMD investing its excess cash which exceeded 2005. Royalties received were $450 in all three years, which came from one source. The licensed patents for which the royalties were received are due to expire in mid-2008. In 2006, UTMD paid $255 for interest compared to $10 in 2005 and none in 2004. The interest in 2006 and 2005 resulted from borrowing €4.5 million ($5,336) in December 2005 to facilitate the repatriation in 2005 of profits generated by UTMD’s Ireland operations since 1996. UTMD expects interest expense of about $258 in 2007 as a result of the Ireland note payable. Although average loan balances will be lower in 2007, the interest rate will be higher and UTMD expects the average conversion rate of the USD from the Euro will be weaker than in 2006, resulting in about the same amount of USD interest. Management expects 2007 non-operating income will be about $360 lower in 2007 than in 2006 because the Company’s cash is now invested solely in short-term money market instruments. In 2006, UTMD realized $520 in capital gains when liquidating its investments in equities. The actual amount of 2007 non-operating income may be even lower if UTMD utilizes excess cash for an acquisition, unexpected litigation costs or substantial share repurchases.

Earnings before income taxes (EBT) result from adding UTMD’s non-operating income to its operating profits. EBT was $12,418 in 2006 compared to $10,214 in 2005 and $16,117 in 2004. EBT margin is EBT divided by total sales. UTMD’s EBT margin was 43.2%, 36.9% and 60.9% in 2006, 2005 and 2004, respectively. Excluding the Tyco income, the 2004 EBT margin would have been 38.0%, which management believes is a better indicator of EBT in that year. Given 2007 projections as previously noted, management is targeting 2007 EBT about the same as 2006, as the expected lower non-operating income will be offset by higher consolidated operating profits.

e) Net Income, EPS and ROE. Net income is EBT minus income taxes, often called the “bottom line”. Net income was $8,168, $7,547 and $10,220 in 2006, 2005 and 2004, respectively. The effective income tax rate was 34.2%, 26.1%

and 36.6% respectively. The significantly lower income tax provision in 2005 was a result of The American Jobs Creation Act of 2004 (the Act) enacted in October 2004 which allowed a temporary tax deduction on repatriated foreign earnings accomplished in 2005. Prior to 2005, UTMD included a deferred tax liability in reported results, anticipating that profits generated by its Ireland facility would eventually be repatriated, triggering U.S. income taxes. Also, UTMD recorded a favorable deferred tax liability adjustment after the conclusion of an IRS audit in 3Q 2005. These were non-recurring tax benefits limited to the year 2005 which provided the much lower tax provision in that year. Other year to year fluctuations in the tax rate may result from: 1) variations in profits of the Ireland subsidiary which is taxed at a 10% rate on exported manufactured products and a 25% rate on rental income; 2) extraterritorial income (ETI) exclusions; 3) higher marginal tax rates for EBT above $10 million; and 4) other factors such as R&D tax credits. Management expects the consolidated income tax rate to increase in 2007 because the ETI exclusion has been repealed.

UTMD's net income expressed as a percentage of sales was 28.4%, 27.3% and 38.6% for years 2006, 2005 and 2004, respectively. UTMD's profitability has consistently ranked in the top performance tier of all U.S. publicly-traded companies, and has been a primary driver for UTMD's past excellent returns on shareholders' equity (ROE).

Earnings per share (EPS) is net income divided by the number of shares of stock outstanding (diluted to take into consideration stock option awards which are "in the money," i.e., have exercise prices below the applicable period's weighted average market value). Diluted EPS were $2.02, $1.80 and $2.19 in 2006, 2005 and 2004, respectively. UTMD's EPS has grown at an annually compounded rate of 17% per year during the nine years since 1997.

The end of 2006 weighted average number of diluted common shares (the number used to calculate diluted EPS) were 4,043 (in thousands) compared to 4,192 shares in 2005 and 4,675 shares in 2004. Dilution for "in the money" unexercised options for the year 2006 was 100 (in thousands) shares compared to 230 in 2005 and 276 in 2004. The total number of options outstanding at year-end 2006 declined 58% from year-end 2005. Dilution decreased in 2006 from 2005 because the average number of options outstanding decreased substantially, even though a higher average share price in the stock market increased the dilution effect of each option. Actual outstanding common shares as of December 31, 2006 were 3,944,000.

Return on shareholders' 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 shareholders' equity during the applicable time period. ROE includes balance sheet measures as well as income statement measures. ROE in 2006 was 15% (24% before dividends), the same as in 2005. Compared to 2005 and 2004, ROE in 2006 was helped by lower litigation costs. A higher net profit margin in 2006 was offset by higher dividends to shareholders and lower financial leverage. Asset turns remained about the same. ROE in 2005 was 15% (22% before dividends) and 24% (28% before dividends) in 2004. The 2004 ROE was aided by Tyco patent infringement damages. UTMD's ROE (before dividends) has averaged 32% per year over the last 21 years. This ratio determines how fast the Company can afford to grow without diluting shareholder interests. For example, a 30% ROE will financially support 30% annual growth in revenues without issuing more stock.

Looking forward, unless UTMD utilizes its cash to make an acquisition or repurchase shares, 2007 ROE will be lower than 2006 because net profitability is projected to remain about the same while average shareholders' equity and dividends increase and asset turns and financial leverage decrease. Retaining a high cash balance which returns only about 5% dilutes overall ROE.

Liquidity and Capital Resources.

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 of employee incentive stock options, totaled $10,853 in 2006 compared to $6,451 in 2005 and $27,459 in 2004. Compared to 2005, net cash provided by operating activities was enhanced in 2006 by an increase of $621 in net profits, a substantial tax benefit of $2,450 from the exercise of employee options (compared to $936 in 2005 and $446 in 2004) and excellent balance sheet management by decreasing inventories, receivables and other current assets in the presence of higher sales activity. In 2004, the major contributor was a receivable of about $25 million from Tyco International for patent infringement.