

UTAH MEDICAL PRODUCTS INC  
Form 10-Q  
May 07, 2014

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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, Commission File No.  
2014 0-11178

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

UTAH 87-0342734  
(State or other jurisdiction of incorporation or (I.R.S. Employer Identification No.)  
organization)

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, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of May 6, 2014:  
3,758,900.

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UTAH MEDICAL PRODUCTS, INC.  
INDEX TO FORM 10-Q

PART I - FINANCIAL INFORMATION		PAGE
Item 1.	Financial Statements	
	Consolidated Condensed Balance Sheets as of March 31, 2014 and December 31, 2013	1
	Consolidated Condensed Statements of Income for the three months ended March 31, 2014 and March 31, 2013	2
	Consolidated Condensed Statements of Cash Flows for three months ended March 31, 2014 and March 31, 2013	3
	Notes to Consolidated Condensed Financial Statements	4
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	6
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	13
Item 4.	Controls and Procedures	13
PART II – OTHER INFORMATION		
Item 1.	Legal Proceedings	14
Item 1A.	Risk Factors	14
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	15
Item 6.	Exhibits	16
SIGNATURES		16

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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, 2014 AND DECEMBER 31, 2013  
(in thousands)

	(unaudited) MARCH 31, 2014	(audited) DECEMBER 31, 2013
<b>ASSETS</b>		
Current assets:		
Cash	\$ 15,038	\$ 14,395
Investments, available-for-sale	51	56
Accounts & other receivables, net	5,075	4,335
Inventories	5,292	4,704
Other current assets	875	796
Total current assets	26,332	24,286
Property and equipment, net	8,904	8,329
Goodwill	15,699	15,649
Other intangible assets	42,239	42,002
Other intangible assets - accumulated amortization	(10,280 )	(9,556 )
Other intangible assets, net	31,959	32,446
Total assets	\$ 82,894	\$ 80,711
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 758	\$ 773
Accrued expenses	3,720	2,786
Current portion of notes payable	4,068	4,052
Total current liabilities	8,546	7,611
Notes payable	4,068	5,065
Deferred tax liability - intangible assets	6,394	6,510
Other long term liabilities	-	-
Deferred income taxes	949	944
Total liabilities	19,956	20,130
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, 2014, 3,756 shares and December 31, 2013, 3,743 shares	38	37
Accumulated other comprehensive income	264	16

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Additional paid-in capital	3,602	3,278
Retained earnings	59,034	57,250
Total stockholders' equity	62,938	60,581
Total liabilities and stockholders' equity	\$ 82,894	\$ 80,711

see notes to consolidated condensed financial statements

UTAH MEDICAL PRODUCTS, INC. AND SUBSIDIARIES  
CONSOLIDATED CONDENSED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME  
FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND MARCH 31, 2013

(in thousands, except per share amounts)

(unaudited)

	THREE MONTHS ENDED MARCH 31,	
	2014	2013
Sales, net	\$9,827	\$10,374
Cost of goods sold	3,777	4,093
Gross profit	6,050	6,281
Operating expense		
Selling, general and administrative	2,084	2,269
Research & development	123	123
Total	2,207	2,392
Operating income	3,843	3,889
Other income (expense)	(61 )	(102 )
Income before provision for income taxes	3,782	3,787
Provision for income taxes	1,060	1,052
Net income	\$2,722	\$2,735
Earnings per common share (basic)	\$0.73	\$0.74
Earnings per common share (diluted)	\$0.72	\$0.73
Shares outstanding - basic	3,750	3,711
Shares outstanding - diluted	3,787	3,757
Other comprehensive income:		
Foreign currency translation net of taxes of \$0 and \$0	\$251	\$(2,516 )
Unrealized gain (loss) on investments net of taxes of \$(2) and \$2	(3 )	3
Total comprehensive income	\$2,971	\$222

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, 2014 AND MARCH 31, 2013  
(in thousands - unaudited)

	MARCH 31,	
	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 2,722	\$ 2,735
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	156	155
Amortization	682	639
(Gain) loss on investments	-	-
Provision for (recovery of) losses on accounts receivable	1	(0 )
(Gain) loss on disposal of assets	-	0
Deferred income taxes	(192 )	(177 )
Stock-based compensation expense	6	7
Changes in operating assets and liabilities:		
Accounts receivable	(735 )	(958 )
Accrued interest and other receivables	19	(171 )
Inventories	(518 )	(82 )
Prepaid expenses and other current assets	(32 )	22
Accounts payable	(18 )	184
Accrued expenses	(169 )	390
Deferred revenue	-	(25 )
Other liability	-	-
Total adjustments	(801 )	(16 )
Net cash provided by operating activities	1,922	2,719
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures for:		
Property and equipment	(658 )	(52 )
Intangible assets	-	-
Purchases of investments	-	-
Proceeds from sale of investments	-	-
Net cash used in investing activities	(658 )	(52 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from issuance of common stock - options	245	340
Common stock purchased and retired	-	-
Payment of taxes for exchange of stock options	-	(90 )
Tax benefit attributable to exercise of stock options	74	175
Repayment of notes payable	(1,012 )	(969 )
Dividends paid	-	-
Net cash provided by (used in) financing activities	(694 )	(544 )
Effect of exchange rate changes on cash	73	(124 )
Net increase in cash and cash equivalents	643	1,999

Cash at beginning of period	14,395	8,871
Cash at end of period	\$ 15,038	\$ 10,870
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash paid during the period for income taxes	\$ 516	\$ -
Cash paid during the period for interest	88	122

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, 2013. 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. Currency amounts are in thousands except per-share amounts and where noted.

(2) Inventories at March 31, 2014 and December 31, 2013 consisted of the following:

	March 31, 2014	December 31, 2013
Finished goods	\$ 1,884	\$ 1,495
Work-in-process	996	984
Raw materials	2,412	2,225
Total	\$ 5,292	\$ 4,704

(3) Stock-Based Compensation. At March 31, 2014, the Company has stock-based employee compensation plans which authorize the grant of stock options to eligible employees and directors. The Company accounts for stock compensation under FASB Accounting Standards Codification ("ASC") 718, Stock Compensation. 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, 2014 and 2013, the Company recognized \$6 and \$7, respectively, in stock based compensation cost.

(4) Notes payable. In March 2011, the Company obtained a \$14,000 loan from JPMorgan Chase Bank, N.A. (Chase), to help finance the purchase of Femcare. The terms and conditions of the loan require UTMD to a) repay the loan principal in equal monthly payments over 5 years, b) pay interest based on the 30-day LIBOR rate plus a margin starting at 2.80% and ranging from 2.00% to 3.75%, depending on the ratio of its funded debt to EBITDA (Leverage Ratio), c) pledge 65% of all foreign subsidiaries' stock, d) provide first priority liens on all domestic business assets, e) maintain its Interest Coverage Ratio at 1.15 to 1.00 or better, f) maintain its Tangible Net Worth (TNW) above a minimum threshold 20% below TNW at closing on March 18, 2011, and g) maintain its Leverage Ratio at 2.75 to 1.00 or less. UTMD is in compliance with all of the loan financial covenants at March 31, 2014. Based on UTMD's financial position, the bank's margin was 2.00% at March 31, 2014. The principal balance on this note at March 31, 2014 was \$2,800.

In March 2011, the Company also obtained a \$12,934 loan from JP Morgan Chase, London Branch, to help finance UTMD's purchase of Femcare. Terms and conditions of the UK loan are the same as those listed above for the \$14,000 U.S. loan. The principal balance on this note at March 31, 2014 was \$5,335.

(5) Warranty Reserve. The Company's published warranty is: "UTMD warrants its products to conform in all material respects to all published product specifications in effect on the date of shipment, and to be free from defects in material and workmanship for a period of thirty (30) days for supplies, or twenty-four (24) months for equipment,

from date of shipment. During the warranty period UTMD shall, at its option, replace any products shown to UTMD's reasonable satisfaction to be defective at no expense to the Purchaser or refund the purchase price.”

UTMD maintains a warranty reserve to provide for estimated costs which are likely to occur. The amount of this reserve is adjusted, as required, to reflect its actual experience. Based on its analysis of historical warranty claims and its estimate that existing warranty obligations were immaterial, no warranty reserve was made at December 31, 2013 or March 31, 2014.

(6) Investments. Changes in the unrealized holding gain/loss on investment securities available-for-sale and reported as a separate component of accumulated other comprehensive income are as follows:

	1Q	1Q
	2014	2013

Balance, beginning of period		
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