

UTAH MEDICAL PRODUCTS INC
Form 10-Q
November 04, 2010

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: September 30, 2010 Commission File No. 0-12575

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

UTAH
(State or other jurisdiction of
incorporation or organization)

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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 AcceleratedNon-accelerated Smaller
accelerated filer filer reporting
filer company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of November 3, 2010:
3,616,000.

UTAH MEDICAL PRODUCTS, INC.
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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

UTAH MEDICAL PRODUCTS, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS AS OF
SEPTEMBER 30, 2010 AND DECEMBER 31, 2009
(in thousands)

| | (unaudited) SEPTEMBER 30, 2010 | (audited) DECEMBER 31, 2009 |
|---|--------------------------------------|-----------------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash | \$ 3,851 | \$ 410 |
| Investments, available-for-sale | 17,500 | 18,845 |
| Accounts & other receivables - net | 2,866 | 3,157 |
| Inventories | 3,270 | 3,407 |
| Other current assets | 474 | 414 |
| Total current assets | 27,961 | 26,233 |
| Property and equipment - net | 8,892 | 8,133 |
| Goodwill | 7,191 | 7,191 |
| Other intangible assets | 2,166 | 2,660 |
| Other intangible assets - accumulated amortization | (2,000) | (2,463) |
| Other intangible assets - net | 166 | 197 |
| TOTAL | \$ 44,210 | \$ 41,754 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 367 | \$ 345 |
| Accrued expenses | 2,056 | 1,152 |
| Current portion of note payable | 231 | 264 |
| Total current liabilities | 2,654 | 1,761 |
| Note payable | 1,037 | 1,403 |
| Deferred income taxes | 741 | 608 |
| Total liabilities | 4,432 | 3,773 |
| 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 - September 30, 2010, 3,615 shares and December 31, 2009, 3,611 shares | 36 | 36 |
| Accumulated other comprehensive loss | (1,183) | (994) |

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| | | |
|----------------------------|------------------|------------------|
| Additional paid-in capital | 35 | - |
| Retained earnings | 40,889 | 38,939 |
| Total stockholders' equity | 39,778 | 37,981 |
| TOTAL | \$ 44,210 | \$ 41,754 |

see notes to consolidated condensed financial statements

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UTAH MEDICAL
PRODUCTS, INC.
AND
SUBSIDIARIES
CONSOLIDATED
CONDENSED
STATEMENTS
OF INCOME FOR
THE
THREE AND
NINE MONTHS
ENDED
SEPTEMBER 30,
2010 AND
SEPTEMBER 30,
2009
(in thousands,
except per share
amounts -
unaudited)

| | THREE MONTHS ENDED SEPTEMBER 30, | | NINE MONTHS ENDED SEPTEMBER 30, | |
|---|-------------------------------------|----------|------------------------------------|-----------|
| | 2010 | 2009 | 2010 | 2009 |
| Sales, net | \$ 6,201 | \$ 6,673 | \$ 18,912 | \$ 19,424 |
| Cost of goods sold | 2,865 | 3,174 | 8,987 | 9,089 |
| Gross profit | 3,336 | 3,500 | 9,925 | 10,335 |
| Operating expense | | | | |
| Selling, general and administrative | 977 | 1,018 | 2,893 | 3,006 |
| Research & development | 101 | 97 | 292 | 273 |
| Total | 1,078 | 1,116 | 3,184 | 3,279 |
| Operating income | 2,257 | 2,384 | 6,741 | 7,056 |
| Other income (expense) | 31 | 61 | 66 | 148 |
| Income before provision for income taxes | 2,289 | 2,445 | 6,807 | 7,204 |
| Provision for income taxes | 777 | 830 | 2,302 | 2,493 |
| Net income | \$ 1,512 | \$ 1,615 | \$ 4,505 | \$ 4,711 |

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| | | | | |
|-------------------------------------|---------|---------|---------|---------|
| Earnings per common share (basic) | \$ 0.42 | \$ 0.45 | \$ 1.24 | \$ 1.31 |
| Earnings per common share (diluted) | \$ 0.42 | \$ 0.44 | \$ 1.24 | \$ 1.30 |
| Shares outstanding - basic | 3,616 | 3,609 | 3,622 | 3,606 |
| Shares outstanding - diluted | 3,631 | 3,642 | 3,643 | 3,624 |

see notes to consolidated condensed financial statements

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UTAH MEDICAL
PRODUCTS, INC.
AND
SUBSIDIARIES
CONSOLIDATED
CONDENSED
STATEMENTS
OF CASH
FLOWS
FOR THE NINE
MONTHS
ENDED
SEPTEMBER 30,
2010 AND
SEPTEMBER 30,
2009
(in thousands -
unaudited)

| | SEPTEMBER 30, 2010 | 2009 |
|---|-----------------------|----------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$ 4,505 | \$ 4,711 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 449 | 433 |
| (Gain) loss on investments | (39) | (199) |
| Provision for (recovery of) losses on accounts receivable | 4 | 6 |
| Deferred income taxes | - | - |
| (Gain) loss on disposal of assets | 0 | - |
| Stock-based compensation expense | 64 | 75 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable - trade | 303 | 385 |
| Accrued interest and other receivables | (45) | (45) |
| Inventories | 122 | (546) |
| Prepaid expenses and other current assets | 48 | (7) |
| Accounts payable | 21 | (37) |
| Accrued expenses | 55 | 431 |
| Total adjustments | 982 | 497 |
| Net cash provided by operating activities | 5,487 | 5,207 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Capital expenditures for: | | |
| Property and equipment | (1,418) | (437) |
| Intangible assets | (2) | (6) |
| Purchases of investments | (1,200) | (2,600) |
| Proceeds from the sale of investments | 2,639 | 1,016 |
| Net cash provided by (used in) investing activities | 19 | (2,028) |

CASH FLOWS FROM FINANCING ACTIVITIES:

| | | |
|---|----------|----------|
| Proceeds from issuance of common stock - options | 380 | 104 |
| Common stock purchased and retired | (439) | (116) |
| Tax benefit attributable to exercise of stock options | 30 | 16 |
| Repayments of note payable | (302) | (428) |
| Payment of dividends | (1,707) | (1,658) |
| Net cash used in financing activities | (2,037) | (2,081) |
| Effect of exchange rate changes on cash | (28) | 19 |
| NET INCREASE (DECREASE) IN CASH | 3,441 | 1,117 |
| CASH AT BEGINNING OF PERIOD | 410 | 97 |
| CASH AT END OF PERIOD | \$ 3,851 | \$ 1,214 |

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

| | | |
|--|----------|----------|
| Cash paid during the period for income taxes | \$ 2,055 | \$ 2,305 |
| Cash paid during the period for interest | 19 | 40 |

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, 2009. In the opinion of management, the accompanying financial statements include all adjustments (consisting only of normal recurring adjustments) necessary to summarize fairly the Company's financial position and results of operations. Dollar amounts are in thousands except per-share amounts, and where noted.

(2) Inventories at September 30, 2010 and December 31, 2009 consisted of the following:

| | September 30, 2010 | December 31, 2009 |
|-----------------|-----------------------|----------------------|
| Finished goods | \$ 1,068 | \$ 1,391 |
| Work-in-process | 828 | 851 |
| Raw materials | 1,374 | 1,165 |
| Total | \$ 3,270 | \$ 3,407 |

(3) Stock-Based Compensation. At September 30, 2010 the Company had stock-based employee compensation plans, which authorized 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 September 30, 2010 and 2009, the Company recognized \$19 and \$22, respectively, in stock-based compensation cost. In the nine months ended September 30, 2010 and 2009, the Company recognized \$64 and \$75, respectively, in stock-based compensation cost.

(4) Comprehensive Income. Comprehensive income for the third quarter (3Q) and first nine months (9M) of 2010 was \$1,769 and \$4,403, net of taxes, respectively. The components used to calculate comprehensive income were foreign currency translation adjustments of \$235 and \$(135) in 3Q and 9M 2010, respectively, and unrealized holding gains of \$22 and \$33 in 3Q and 9M 2010, respectively.

(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 are immaterial, no changes to the warranty reserve were made either for 3Q 2010 or 9M 2010, and the reserve balance at the end of September 30, 2010 was zero.

(6) Investments. As of September 30, 2010, the Company's investment of 99% of its cash and investment balances are in securities held in low risk, liquid and low yield bank accounts at JP Morgan Chase or money market mutual funds at Fidelity Investments. To improve returns, 1% of current balances are held in equity securities of large cap established firms that pay dividends. 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:

| | 3Q 2010 | 3Q 2009 |
|---|------------|------------|
| Balance, beginning of period | \$(224) | \$(307) |
| Realized loss from securities included in beginning balance | 30 | 96 |
| Gross unrealized holding gains (losses), in equity securities | 6 | 45 |
| Deferred income taxes on unrealized holding loss | (14) | (55) |
| Balance, end of period | \$(202) | \$(221) |

(7) Fair Value Measurements. The Company follows ASC 820, Fair Value Measurements and Disclosures to determine fair value of its financial assets. The following table provides financial assets carried at fair value measured as of September 30, 2010:

| Description | Fair Value Measurements Using | | | |
|-------------------------------|-------------------------------|--|---|---|
| | Total Fair Value at 9/30/2010 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Available-for-sale securities | \$ 17,500 | \$ 17,500 | \$ 0 | \$ 0 |

(8) 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 they relate to the Company or its management, are intended to identify forward-looking statements. Such statements reflect the current view of the Company respecting future events and are subject to certain risks, uncertainties, and assumptions, including the risks and uncertainties noted throughout this document. Although the Company has attempted to identify important factors that could cause the actual results to differ materially, there may be other factors that cause the forward statement not to come true as anticipated, believed, projected, expected, or intended. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may differ materially from those described herein as anticipated, believed, projected, estimated, expected, or intended. 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.

Risk Factors:

Legislative healthcare reform in the United States, as embodied in The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (the “Acts”) add a substantial excise tax slated to begin in 2013, increase administrative costs and may lead to decreased revenues.

The voluminous Acts, administrative rules to enforce the Acts and promised efforts to reform the Acts, make the U.S. medical device marketplace unpredictable, particularly for the thousands of small medical device manufacturers including UTMD that do not have the overhead structure that the large companies can afford. To the extent that the Acts place additional burdens on small medical device companies in the form of an excise tax on medical device sales, additional oversight of marketing and sales activities and new reporting requirements, the result is likely to be negative for UTMD’s ability to effectively compete and support continued investments in new product development and marketing of specialty devices.

Increasing regulatory burdens may result in significant loss of revenue, unpredictable costs and loss of management focus on helping the Company thrive:

The Company’s experience in 2001-2005, when the FDA sought to shut it down highlights the ongoing risk of being subject to a regulatory environment which can be arbitrary and capricious. The risks associated with such a circumstance relate not only to the substantial costs of litigation in millions of dollars, but also loss of business, the diversion of attention of key employees for an extended period of time, from new product development and routine quality control management activities, and a tremendous psychological and emotional toll on employees.

Since the FDA reserves to itself the interpretation of which vague industry standards comprise law at any point in time, it is impossible for any medical device manufacturer to ever be confident that it is operating within the Agency’s version of the law. The result is that companies, including UTMD are considered guilty prior to proving their

innocence. New premarketing submission rules and FDA user fees will increase development costs and result in delays to revenues from new or improved products.

The growth of Group Purchasing Organizations adds non-productive costs, typically weakens the Company's marketing and sales efforts and may result in lower revenues:

GPOs, theoretically acting as bargaining agents for member hospitals, but actually collecting revenues from the companies that they are negotiating with, have made a concerted effort to turn medical devices that convey special patient safety advantages and better health outcomes, like UTMD's, into commodities. GPOs have been granted an antitrust exemption by the U.S. Congress. Otherwise, their business model based on "kickbacks" would be a violation of law. These bureaucratic entities do not recognize the overall cost of care as it relates to safety and effectiveness of devices, and they create a substantial administrative burden that is primarily related to collection of their administrative fees.

As the healthcare industry becomes increasingly bureaucratic it puts smaller companies like UTMD at a competitive disadvantage:

An aging population and an extended economic recession are placing greater burdens on healthcare systems, particularly hospitals. The length of time and number of administrative steps required in adopting new products for use in hospitals has grown substantially in recent years. Smaller companies like UTMD typically do not have the administrative resources to deal with broad new administrative requirements, resulting in either loss of revenue or increased costs. As UTMD introduces new products it believes are safer and more effective, it may find itself excluded from hospital customers because of the existence of long term supply agreements for preexisting products, particularly from competitors which can bundle a broader range of products. Restrictions used by hospital administrators to limit clinician involvement in device purchasing decisions makes communicating UTMD's clinical advantages much more difficult.

A product liability lawsuit could result in significant legal expenses and a large award against the Company: UTMD's devices are frequently used in inherently risky situations to help physicians achieve a more positive outcome than what might otherwise be the case. In any lawsuit where an individual plaintiff suffers permanent physical injury, the possibility of a large award for damages exists whether or not a causal relationship exists.

The Company's reliance on third parties to market its products overseas results in less predictable international revenues:

UTMD's international distributors have varying expertise in marketing and selling specialty medical devices. They also sell other devices that may result in less focus on the Company's products.

The loss of one or more key employees could negatively affect UTMD performance:

In a small company with limited resources, the distraction or loss of key personnel at any point in time may be disruptive to performance. The Company's benefits programs are key to recruiting and retaining talented employees. The rapid increase in UTMD's employee healthcare plan costs, for example, may cause the Company to have to reduce coverages which in turn represents a risk to retaining key employees.

(9) Subsequent Events. UTMD has evaluated subsequent events through the date the financial statements were issued, and concluded there were no other events or transactions during this period that required recognition or disclosure in its financial statements.

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

General

UTMD manufactures and markets a well-established range of primarily single-use specialty medical devices. The Company's Form 10-K Annual Report for the year ended December 31, 2009 provides a detailed description of products, technologies, markets, regulatory issues, business initiatives, resources and business risks, among other details, and should be read in conjunction with this report. A pictorial display as well as description of UTMD's devices is available on the Company's website www.utahmed.com.

Because of the relatively short span of time, results for any given three month period in comparison with a previous three month period may not be indicative of comparative results for the year as a whole. Dollar amounts in the report are in thousands, except per-share amounts or where otherwise noted.

Analysis of Results of Operations

a) Overview

A summary of income statement measures for third quarter (3Q) and first nine months (9M) 2010 compared to the same periods in 2009 follow:

| | 3Q 2010 | 3Q 2009 | change | 9M 2010 | 9M 2009 | change |
|-----------------------|------------|------------|--------|------------|------------|--------|
| Net Sales | \$6,201 | \$6,673 | (7.1%) | \$18,912 | \$19,424 | (2.6%) |
| Gross Profit | 3,336 | 3,500 | (4.7%) | 9,925 | 10,335 | (4.0%) |
| Operating Income | 2,257 | 2,384 | (5.3%) | 6,741 | 7,056 | (4.5%) |
| Income Before Tax | 2,289 | 2,445 | (6.4%) | 6,807 | 7,204 | (5.5%) |
| Net Income | 1,512 | 1,615 | (6.4%) | 4,505 | 4,711 | (4.4%) |
| Earnings per Share | .416 | .443 | (6.1%) | 1.237 | 1.300 | (4.9%) |

Total sales in 3Q 2009 were the highest of the four quarters in 2009 and total sales in 3Q 2010 were the lowest in the three quarters to date in 2010. Both were due primarily to fluctuations in international sales. Domestic sales have increased each quarter sequentially in 2010, but are 5% lower for 9M 2010, whereas International sales have declined each quarter sequentially in 2010 but are 5% higher for 9M 2010. UTMD does not consider its business to be seasonal. However, ordering patterns for domestic OEM customers and International customers, which together represent about 35% of UTMD's business, do fluctuate from quarter to quarter because those customers tend to purchase several months' up to a year's supply of devices or components at a time.

A comparison of profit margins for the periods follows:

| | 3Q 10 | 3Q 09 | 9M 10 | 9M 09 |
|-----------------------------|-------|-------|-------|-------|
| Gross Profit Margin: | 53.8% | 52.4% | 52.5% | 53.2% |
| Operating Profit Margin: | 36.4% | 35.7% | 35.6% | 36.3% |
| Net Income Margin: | 24.4% | 24.2% | 23.8% | 24.3% |

Gross profits declined less than sales declined in 3Q 2010 compared to 3Q 2009 due to an improved gross profit margin resulting from a combination of 1) cessation of Oregon injection molding operations after 1H 2010, 2) a better pricing mix resulting from a decrease in International sales at wholesale prices, and 3) reallocation of shipping costs

from cost of goods sold to sales and marketing expenses (a component of operating expenses). In contrast, gross profits declined more than sales declined in 9M 2010 compared to 9M 2009 due to a lower gross profit margin resulting from a combination of 1) costs of consolidating Oregon operations into Utah in 1H 2010, and 2) a worse pricing mix resulting from an increase in International sales at wholesale prices, and lower prices domestically. Operating expenses in 3Q 2010 and 9M 2010 were consistent with the same periods in 2009. Operating expenses as a percentage of sales were 17.4% in 3Q 2010 compared to 16.7% in 3Q 2009, and 16.8% in 9M 2010 compared to 16.9% in 9M 2009. Income Before Tax (EBT) was down more than operating income in both periods because non-operating income was \$30 less in 3Q 2010 than in 3Q 2009, and \$82 less in 9M 2010 than in 9M 2009 mainly due to lower interest rates on UTMD's cash and equivalents balances. The resulting net income in 3Q 2010 compared to 3Q 2009 was down the same percentage as EBT because the income tax provision rate was the same at 33.95% for both periods. For 9M 2010, the income tax provision was lower at 33.81% compared to 34.61% for 9M 2009. The lower decline in Earnings per Share relative to Net Income in 3Q 2010 was due to 10,600 fewer diluted shares in 3Q 2010 compared to 3Q 2009. The greater decline in Earnings per Share relative to Net Income in 9M 2010 was due to 19,300 greater diluted shares in 9M 2010 compared to 9M 2009. The most recent four calendar quarters' EPS were \$1.66. Management is currently projecting EPS for calendar year 2010 approximately \$1.66, about a 4% decline for the year as a whole.

The Company's September 30, 2010 balance sheet gained strength compared to December 31, 2009 and September 30, 2009. Key balance sheet changes compared to the previous calendar year-end and one year ago follow:

| | Change from | Change from |
|---------------------------|----------------|----------------|
| [Thousand | 12-31-09 | 9-30-09 |
| \$\$] | | |
| Cash & Investments | + 2,096 | + 2,381 |
| Receivables & Inventory | (428) | (909) |
| Total Assets | + 2,456 | + 2,032 |
| Total Current Liabilities | + 893 | (341) |
| Ireland Note Payable | (399) | (459) |
| Shareholders' Equity | 1,797 | + 2,489 |

The reduction in receivables and inventories indicates that as of September 30, 2010, receivables are current (40 days in trade receivables) and inventories fresh (3.6 turns based on 3Q 2010 CGS) relative to recent production and sales activities. In 9M 2010, cash and equivalents balances rose after the Company used cash generated by operations to pay \$2,555 in shareholder dividends (counting the 4Q 2009 dividend which was paid in late December 2009 instead of early January 2010), repurchase 17,600 of its shares in the open market for \$439, invest \$1,155 in facilities expansion in Utah (in order to house consolidated Oregon operations), invest \$142 in new product technology and make \$121 purchases of capital equipment and tooling. Shareholders' Equity rose despite the above noted payment of dividends and share repurchases which reduce Shareholders' Equity. The Company continues to repay the Ireland subsidiary loan (UTMD's only debt) with profits generated by Ireland operations. The increase in current liabilities from the end of 2009 is due to the 4Q 2009 shareholder dividend having already been paid at the end of December 2009, whereas the 3Q 2010 dividend was paid in October after the end of 3Q 2010 (and therefore included in current liabilities on September 30, 2010). As a more consistent comparison because of the same timing of dividend payments, current liabilities on September 30, 2010 are down \$341 compared to September 30, 2009.

b) Revenues

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

Total sales in 3Q 2010 and 9M 2010 were down \$472 (7.1%) and \$511 (2.6%) respectively, from the same periods in 2009. Domestic sales declined 6% in 3Q 2010 and 5% for 9M 2010 as a result of lower utilization rates of medical devices in U.S. hospitals, lower demand for components from OEM customers and unit price reductions. Despite the declines, domestic sales have improved in 2010 on a quarterly basis, from \$4,375 in first quarter to \$4,455 in third quarter. International sales were 9% lower in 3Q 2010 but were 5% higher for 9M 2010 compared to the same periods

in 2009. Sales in 9M 2010 from UTMD's Ireland subsidiary to international customers were 8% lower in US Dollar terms but only 3% lower in Euro terms compared to 9M 2009. The difference was due to the USD/Euro average exchange rate, which was 1.314 for 9M 2010 compared to 1.387 for 9M 2009.

Domestic sales are comprised of domestic direct sales (sales of finished devices to end users or distributors), which were down 6% in both 3Q 2010 and 9M 2010, and domestic OEM sales (sales of components to other companies for use in their products), which were down 5% in 3Q 2010 and 4% in 9M 2010, compared to same periods in 2009. Domestic OEM sales and international sales have an uneven quarter-to-quarter sales pattern because customers purchase several months' supply of products at a time to minimize transportation and import costs.

The following table provides the actual sales dollar amounts by general product category for total sales and the subset of international sales:

Global revenues by product category:

| | 3Q 2010 | 3Q 2009 | 9M 2010 | 9M 2009 |
|--|----------------|----------------|-----------------|-----------------|
| Obstetrics | \$1,590 | \$1,624 | \$4,514 | \$4,836 |
| Gynecology/ Electrosurgery/ Urology | 1,459 | 1,573 | 4,561 | 4,806 |
| Neonatal | 1,728 | 1,902 | 5,534 | 5,483 |
| Blood Pressure Monitoring and Accessories* | 1,424 | 1,574 | 4,304 | 4,298 |
| Total: | \$6,201 | \$6,673 | \$18,912 | \$19,424 |

*includes molded components sold to OEM customers.

International revenues by product category:

| | 3Q 2010 | 3Q 2009 | 9M 2010 | 9M 2009 |
|--|----------------|----------------|----------------|----------------|
| Obstetrics | \$242 | \$122 | \$579 | \$344 |
| Gynecology/ Electrosurgery/ Urology | 431 | 535 | 1,555 | 1,698 |
| Neonatal | 257 | 255 | 892 | 714 |
| Blood Pressure Monitoring and Accessories* | 816 | 1,005 | 2,662 | 2,676 |
| Total: | \$1,745 | \$1,916 | \$5,688 | \$5,432 |

*includes molded components sold to OEM customers.

For the remainder of 2010, UTMD's sales will depend on device utilization rates in the face of increasing financial difficulties for U.S. hospitals, UTMD's ability to retain medical staff involvement in purchasing decisions for UTMD's "physician-preference" products used in U.S. hospitals where administrators are increasingly making the product decisions, expanded 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. The Company now expects total sales will be about 3% lower for the full calendar year of 2010 compared to 2009.

c) Gross Profit

UTMD's average GPM, gross profits as a percentage of sales, was 53.8% in 3Q 2010 and 52.5% in 9M 2010, compared to 52.4% and 53.2% in 3Q and 9M 2009. Although the unit prices of some devices declined and there was lower absorption of fixed manufacturing overhead costs in Utah and Ireland as a result of lower sales, UTMD achieved a higher 3Q 2010 GPM due to a combination of 1) cessation of Oregon injection molding operations after 1H 2010, 2) a better pricing mix resulting from a decrease in International sales at wholesale prices, and 3) reallocation of shipping costs from cost of goods sold to sales and marketing expenses (a component of operating expenses). UTMD believes the amount of the reclassification is not significant. In the 2010 10-K Report UTMD will reclassify applicable prior period amounts for comparison purposes. The reallocation of shipping expenses represented 1.1 percentage points in GPM. In contrast, gross profits declined more than sales declined in 9M 2010 compared to 9M 2009 due to a lower gross profit margin resulting from a combination of 1) one-time costs of consolidating Oregon operations into Utah in 1H 2010, 2) a worse pricing mix resulting from an increase in International sales at wholesale prices, 3) lower unit prices domestically and 4) lower absorption of fixed manufacturing overhead costs. For the year 2010 as a whole, management expects UTMD's GPM will be about one-half of a percentage point lower than in 2009.

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 optimize 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, fixed manufacturing overhead expenses cannot be meaningfully allocated between direct and OEM sales. Therefore, UTMD does not report GPM by sales channels.

d) Operating Profit

Operating Profit, or income from operations, is the profit remaining after subtracting operating expenses from gross profits. Operating expenses include sales and marketing (S&M), product development (R&D) and general and administrative (G&A) expenses. Operating expenses in 3Q 2010 were \$37 lower than in 3Q 2009, and \$94 lower in 9M 2010 than in 9M 2009. The lower 3Q 2010 operating expenses (which included shipping expenses reallocated from cost of goods sold), combined with a higher GPM, resulted in an increase in the operating profit margin (OPM) in 3Q 2010 to 36.4% from 35.7% in 3Q 2009. In 9M 2010, UTMD's OPM was 35.6% compared to 36.3% in 9M 2009. UTMD expects an OPM for 2010 as a whole about the same as for 9M 2010.

S&M expenses in 3Q 2010 were 6.2% of sales compared to 5.8% of sales in 3Q 2009, and 6.1% of sales in 9M 2010 compared to 6.3% of sales in 9M 2009. The higher S&M expenses as a percentage of sales in 3Q 2010 resulted from the reallocation of shipping costs and lower sales. 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.

R&D expenses in 3Q and 9M 2010 were 1.6% and 1.5% of sales, respectively, compared to 1.5% and 1.4% of sales in 3Q and 9M 2009. UTMD will continue to opportunistically invest in R&D as projects are identified that may help its product development pipeline.

G&A expenses in 3Q 2010 were 9.5% of sales compared to 9.4% of sales in 3Q 2009, and 9.2% of sales in both 9M 2010 and 9M 2009. In addition to litigation expense, G&A expenses include the cost of outside financial auditors and corporate governance activities relating to the implementation of SEC rules resulting from the Sarbanes-Oxley Act, as well as estimated stock-based compensation cost. Option compensation expense included in G&A expenses in 3Q 2010 was \$19 compared to \$22 in 3Q 2009, and \$64 in 9M 2010 compared to \$75 in 9M 2009.

| | 3Q 2010 | 3Q 2009 | 9M 2010 | 9M 2009 |
|---------------------------|------------|------------|------------|------------|
| S&M Expense | \$386 | \$389 | \$1,159 | \$1,218 |
| R&D Expense | 101 | 97 | 292 | 273 |
| G&A Expense | 591 | 630 | 1,734 | 1,788 |
| Total Operating Expenses: | \$1,078 | \$1,116 | \$3,184 | \$3,279 |

e) Non-operating income

Non-operating income in 3Q 2010 was \$31 compared to \$61 in 3Q 2009, and \$66 in 9M 2010 compared to \$148 in 9M 2009. The decrease in both 2010 periods was due primarily to UTMD receiving less in investment income as a result of lower interest rates. UTMD projects its non-operating income will be about \$90 for all of 2010.

f) Earnings Before Income Taxes

3Q 2010 earnings before income taxes (EBT) were \$2,289 compared to \$2,445 in 3Q 2009. EBT in 9M 2010 were \$6,807 compared to \$7,204 in 9M 2009. EBT margins (EBT divided by sales) were 36.9% and 36.0% in 3Q and 9M 2010, respectively, compared to 36.6% and 37.1% in 3Q and 9M 2009. The domestic component of EBT was \$2,240 and \$6,560 in 3Q and 9M 2010, respectively, compared to \$2,334 and \$6,872 in 3Q and 9M 2009. The Ireland contribution to (foreign component of) EBT was \$48 and \$247 in 3Q and 9M 2010, respectively, compared to \$111 and \$332 in 3Q and 9M 2009.

g) Net Income and Earnings per Share

UTMD's net income was \$1,512 in 3Q 2010 compared to \$1,615 in 3Q 2009, and \$4,505 in 9M 2010 compared to \$4,711 in 9M 2009. Net profit margins (NPM), net income (after income taxes) expressed as a percentage of sales, were 24.4% in 3Q 2010 compared to 24.2% in 3Q 2009, and 23.8% in 9M 2010 compared to 24.3% in 9M 2009. The income tax provision rates in 3Q and 9M 2010 were 34.0% and 33.8% of EBT, respectively, compared to 34.0% and 34.6% in 3Q and 9M 2009. The lower tax provision rate in 9M 2010 resulted primarily from the Domestic Production Activities Deduction allowed by Section 199 of the U.S. Internal Revenue Code, which increased to 9% of manufacturing profits in 2010 from 6% in 2009.

UTMD's net income divided by weighted average outstanding shares for the applicable reporting period, diluted for unexercised employee and director options, provides earnings per share (EPS) as follows:

| | 3Q 2010 | 3Q 2009 | 9M 2010 | 9M 2009 |
|--------------------------|------------|------------|------------|------------|
| Earnings Per Share (EPS) | \$.416 | \$.443 | \$ 1.237 | \$ 1.300 |
| Shares (000), Diluted | 3,631 | 3,642 | 3,643 | 3,624 |

The Company repurchased 12,340 of its shares in the open market in 3Q 2010 at an average cost of \$24.67 per share including transaction costs. That brought the total repurchases in 9M 2010 to 17,570 shares at an average cost of \$24.98 per share. Exercises of employee options added 520 and 20,826 shares in 3Q and 9M 2010 (net of 1,769 shares swapped in 9M by optionees for payment of the exercise price of the options). Options outstanding at September 30, 2010 were about 221,600 shares at an average exercise price of \$24.53 per share. This compares to

243,800 option shares outstanding at the end of 3Q 2009 at an average exercise price of \$23.94 per share. Stock market increases and decreases in UTMD's share price impact EPS as a result of the dilution calculation for unexercised options with exercise prices below the average stock market value during each period. The dilution calculation added 14,800 and 21,200 shares to actual weighted average shares outstanding in 3Q and 9M 2010 respectively, compared to 33,000 and 17,600 in 3Q and 9M 2009. Actual outstanding common shares as of the end of 3Q 2010 were 3,614,900 compared to 3,610,400 at the end of 3Q 2009.

h) Return on Equity

Return on equity (ROE) is the portion of net income retained by UTMD (after payment of dividends) to internally finance its growth, divided by the average accumulated shareholder equity for the applicable time period. Share repurchases have a beneficial impact on ROE as long as the Company sustains net profit performance, because shareholder equity is reduced by the cost of the shares repurchased. The Company believes that repurchasing its shares when they are undervalued ultimately leads to much higher shareholder value as well as higher ROE.

Annualized ROE (after payment of dividends) for 9M 2010 was 7% compared to 8% for 9M 2009. ROE prior to payment of dividends was 15% in 9M 2010 compared to 17% in 9M 2009. The lower ROE in 9M 2010 was due to higher average shareholder equity and lower net income to date in 2010. Average shareholder equity has grown primarily because UTMD has remained profitable and has minimally repurchased shares in 2010.

Liquidity and Capital Resources

i) Cash flows

Net cash provided by operating activities, including adjustments for depreciation and other non-cash operating expenses along with changes in working capital totaled \$5,487 in 9M 2010 compared to \$5,207 in 9M 2009. The most significant difference was a \$668 benefit to cash from reduced inventories in 9M 2010 when compared to an increase in 2009. Other changes combined to net a \$356 use of cash.

The Company's use of capital expenditures for property and equipment increased from \$437 in 9M 2009 to \$1,418 in 9M 2010 primarily as a result of expanding UTMD's Utah facilities to consolidate Oregon molding operations into Utah. The use of cash for investing activities in each period was a result of purchases of short-term investments in an effort to maximize returns on excess cash balances while maintaining safety and liquidity.

In 9M 2010, UTMD received \$380 and issued 20,826 shares of stock upon the exercise of employee stock options. Option exercises in 9M 2010 were at an average price of \$19.04 per share. Employees exercised a total of 22,595 option shares in 9M 2010, with 1,769 shares immediately being retired as a result of the individuals trading the shares in payment of the exercise price of the options. For comparison, the Company received \$104 from issuing 13,027 shares of stock on the exercise of employee stock options in 9M 2009, net of 2,145 shares retired upon employees trading those shares in payment of the stock option exercise price. The Company repurchased 17,570 shares of its stock in the open market at a cost of \$439 during 9M 2010, an average cost of \$24.98 per share including commissions and fees. For comparison, UTMD repurchased 5,367 shares of stock in the open market at a cost of \$116 during 9M 2009.

UTMD Ltd. (Ireland subsidiary) made payments of \$302 on its note payable during 9M 2010, compared to \$428 in 9M 2009. UTMD paid \$1,707 in cash dividends in 9M 2010 compared to \$1,658 in 9M 2009.

Management believes that income from operations and effective management of working capital will provide the liquidity needed to finance internal growth plans. Planned capital expenditures during the remainder of 2010 are expected to be about the same as they were in the same period of 2009. The Company continues to keep facilities, equipment and tooling in good working order. In addition, the Company may use cash for marketing or product manufacturing rights to broaden the Company's product offerings; for continued share repurchases when the price of the stock is undervalued; and if available for a reasonable price, an acquisition that might strategically fit UTMD's business and be accretive to performance.

j) Assets and Liabilities

September 30, 2010 total assets were \$2,457 higher than at December 31, 2009. The increase resulted mainly from a \$2,096 increase in cash and investments. Cash and investments increased primarily as a result of UTMD's continued excellent profitability.

Working capital (current assets, C/A, minus current liabilities, C/L) was \$25,307 at September 30, 2010, an \$836 increase from 2009 year-end. C/A increased \$1,728. Inventory and receivables balances both declined and were well within management's productivity targets. C/L increased \$893 because the 4Q 2009 dividend was paid before the end of December 2009, but the 3Q 2010 dividend was not paid until October 2010 and therefore was included in C/L on September 30. As a result of the increase in C/L, UTMD's current ratio was 10.5 on September 30, 2010 compared to 14.9 at year-end 2009. A better comparison that eliminates the differences in timing of dividend payments might be the current ratio of 8.8 on September 30, 2009. Working capital continues well in excess of UTMD's normal operating needs, providing flexibility to take timely advantage of investment opportunities to expand business or to weather surprises from an increasingly negative environment for specialized medical device companies in the U.S.

Net property and equipment (P&E) increased \$759 in 9M 2010 even though capital expenditures of \$1,396 exceeded depreciation by \$980. The difference was due to the change in USD/Euro exchange rates for assets located in Ireland P&E. Goodwill resulting from prior acquisitions remained the same. Net intangible assets excluding goodwill decreased \$31, the amount of intellectual property amortization during the period. At September 30, 2010, net intangible assets including goodwill were 17% of total assets compared to 18% at year-end 2009.

UTMD's long term liabilities are comprised of the Ireland subsidiary note payable (\$1,037 on September 30, 2010) and deferred income taxes (\$741 on September 30, 2010). The deferred taxes result primarily from the temporary

difference created by accelerated depreciation of assets for tax purposes compared to depreciation for book purposes. As of December 31, 2009, the respective long term liabilities were \$1,403 and \$608. The September 30, 2010 Ireland note payable balance, denominated in thousand Euros, declined 226. This translated to a \$399 USD-denominated decline because the USD increased in value against the Euro.

Because of the increase in C/L in 9M 2010 related to the timing of the payment of the quarterly dividend, UTMD's total debt ratio (total liabilities/ total assets) as of September 30, 2010 was 10% compared to 9% on December 31, 2009. UTMD's total debt ratio on September 30, 2009 was also 10%.

k) Management's Outlook.

As outlined in its December 31, 2009 10-K report, UTMD's plan for 2010 is to

- 1) work to retain its significant global market shares of established key specialty products;
- 2) try to accelerate revenue growth of newer products;
- 3) develop additional proprietary products helpful to clinicians through internal new product development;
- 4) continue achieving excellent overall financial operating performance;
- 5) look for accretive acquisitions to augment sales growth; and
- 6) utilize excess cash balances in shareholders' best long-term interest, including continued cash dividends and open market share repurchases when UTMD's share price seems undervalued.

UTMD's objectives for calendar year 2010 remain the same as above.

l) Accounting Policy Changes.

None.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

UTMD has manufacturing operations, including related assets, in Ireland denominated in the EURO, and sells products under agreements denominated in various Western European currencies. The EURO and other currencies are subject to exchange rate fluctuations that are beyond the control of UTMD. The exchange rate was 0.7348 EURO per USD as of September 30, 2010, and 0.6840 EURO per USD as of September 30, 2009. UTMD manages its foreign currency risk without separate hedging transactions by converting currencies to USD as transactions occur.

Item 4. Controls and Procedures

The company's management, under the supervision and with the participation of the Chief Executive Officer and the Principal Financial Officer, evaluated the effectiveness of the company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of September 30, 2010. Based on this evaluation, the Chief Executive Officer and Principal Financial Officer concluded that, as of September 30, 2010, the company's disclosure controls and procedures were effective.

There were no changes in the company's internal controls over financial reporting that occurred during the quarter ended September 30, 2010, that have materially affected, or are reasonably likely to materially affect, the company's internal controls over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The Company may be a party from time to time in litigation incidental to its business. Presently, there is no litigation.

Item 1A. Risk Factors

In addition to the other information set forth in this report, investors should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in UTMD's Annual Report on Form 10-K for the year ended December 31, 2009, which could materially affect its business, financial condition or future results. The risks described in the Annual Report on Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to UTMD or currently deemed to be immaterial also may materially adversely affect the Company's business, financial condition and/or operating results.

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

The following table details purchases by UTMD of its own securities during 3Q 2010.

ISSUER PURCHASES OF EQUITY SECURITIES

| Period | Total Number of Shares Purchased (1) | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1) | Maximum Number (or Approximate Dollar Value) of Shares that May be Purchased Under the Plans or Programs (1) |
|-------------------|--------------------------------------|------------------------------|--|--|
| 7/01/10 – 7/31/10 | 12,340 | \$ 24.67 | 12,340 | |
| 8/01/10 – 8/31/10 | - | - | - | |
| 9/01/10 – 9/30/10 | - | - | - | |
| Total | 12,340 | \$ 24.67 | 12,340 | |

(1) In 3Q 2010 UTMD repurchased the above shares pursuant to a continued open market repurchase program initially announced in August 1992. Since 1993 through 3Q 2010, the Company has repurchased 6.7 million shares at an average cost of \$12.48 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 2.8 million shares at an average cost of \$9.76 per share including fees and administrative costs. In total, UTMD has repurchased 9.5 million of its shares at an average price of \$11.69 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 1.7 million option shares at an average price of \$9.18 per share. All options were awarded at the market value of the stock on the date of the award.

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

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

Item 6. Exhibits

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

SIGNATURES

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

UTAH MEDICAL PRODUCTS, INC.
REGISTRANT

Date: 11/4/10

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

Date: 11/4/10

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