

UTAH MEDICAL PRODUCTS INC
Form 10-Q
November 09, 2012

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, 2012

Commission File No. 001-12575

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 accelerated filer <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
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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

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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 November 7, 2012:
3,684,000.

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, 2012 AND DECEMBER 31, 2011
(in thousands)

	(unaudited) SEPTEMBER 30, 2012	(audited) DECEMBER 31, 2011
ASSETS		
Current assets:		
Cash	\$ 9,288	\$ 6,534
Investments, available-for-sale	81	64
Accounts & other receivables - net	5,036	4,734
Inventories	4,707	5,005
Other current assets	944	678
Total current assets	20,057	17,016
Property and equipment - net	8,449	8,805
Goodwill	15,423	15,120
Other intangible assets	40,937	39,461
Other intangible assets - accumulated amortization	(6,063)	(4,012)
Other intangible assets - net	34,874	35,449
TOTAL	\$ 78,803	\$ 76,389
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,178	\$ 925
Accrued expenses	4,787	3,276
Current portion of notes payable	5,450	5,430
Total current liabilities	11,415	9,631
Notes payable	9,415	16,242
Deferred tax liability - intangible assets	8,053	8,549
Other long term liabilities	459	522
Deferred income taxes	752	688
Total liabilities	30,093	35,632
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, 2012, 3,692 shares and December 31, 2011, 3,640 shares	37	36

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Accumulated other comprehensive loss	(1,553)	(2,906)
Additional paid-in capital	2,059	721
Retained earnings	48,167	42,904
Total stockholders' equity	48,710	40,757
TOTAL	\$ 78,803	\$ 76,389

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, 2012 AND SEPTEMBER 30, 2011
(in thousands, except per share amounts - unaudited)

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	SEPTEMBER 30, 2012	2011	SEPTEMBER 30, 2012	2011
Sales, net	\$10,489	\$10,784	\$31,719	\$27,954
Cost of goods sold	4,012	4,266	12,433	11,466
Gross profit	6,477	6,518	19,286	16,487
Operating expense				
Selling, general and administrative	2,376	2,842	7,226	7,172
Research & development	140	138	433	386
Total	2,517	2,979	7,660	7,558
Operating income	3,960	3,539	11,627	8,929
Other income (expense)	(111)	(265)	(411)	(561)
Income before provision for income taxes	3,849	3,274	11,215	8,368
Provision for income taxes	1,128	1,037	3,305	2,812
Net income	\$2,721	\$2,237	\$7,910	\$5,556
Earnings per common share (basic)	\$0.74	\$0.62	\$2.15	\$1.53
Earnings per common share (diluted)	\$0.73	\$0.61	\$2.13	\$1.53
Shares outstanding - basic	3,689	3,636	3,672	3,629
Shares outstanding - diluted	3,726	3,644	3,706	3,642

see notes to consolidated condensed financial statements

UTAH MEDICAL PRODUCTS, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND SEPTEMBER 30, 2011
(in thousands - unaudited)

	SEPTEMBER 30,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$7,910	\$5,556
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	494	536
Amortization	1,957	1,424
(Gain) loss on investments	(0)	(6)
Provision for (recovery of) losses on accounts receivable	10	10
Deferred income taxes	(613)	(374)
Stock-based compensation expense	54	73
Changes in operating assets and liabilities:		
Accounts receivable - trade	(140)	287
Accrued interest and other receivables	(111)	(26)
Inventories	336	(579)
Prepaid expenses and other current assets	(88)	163
Accounts payable	232	(439)
Accrued expenses	531	955
Deferred revenue	(75)	(52)
Other liability	-	330
Total adjustments	2,588	2,303
Net cash provided by operating activities	10,499	7,859
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures for:		
Property and equipment	(195)	(196)
Intangible assets	(1)	(8)
Purchases of investments	-	(500)
Proceeds from the sale of investments	-	15,155
Net cash paid in acquisition	-	(41,084)
Net cash provided by (used in) investing activities	(197)	(26,633)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock - options	1,185	442
Common stock purchased and retired	-	-
Tax benefit attributable to exercise of stock options	99	30
Proceeds from notes payable	-	26,934
Repayments of notes payable	(7,174)	(3,682)
Payment of dividends	(1,762)	(1,705)
Net cash provided by (used in) financing activities	(7,652)	22,019
Effect of exchange rate changes on cash	103	(23)
NET INCREASE (DECREASE) IN CASH	2,754	3,222

CASH AT BEGINNING OF PERIOD	6,534	3,818
CASH AT END OF PERIOD	\$9,288	\$7,040
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for income taxes	\$2,621	\$2,015
Cash paid during the period for interest	516	636

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, 2011. 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 September 30, 2012 and December 31, 2011 consisted of the following:

	September 30, 2012	December 31, 2011
Finished goods	\$ 1,732	\$ 2,518
Work-in-process	1,039	795
Raw materials	1,936	1,692
Total	\$ 4,707	\$ 5,005

(3) Stock-Based Compensation. At September 30, 2012, 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 September 30, 2012 and 2011, the Company recognized \$16 and \$24, respectively, in stock-based compensation cost. In the nine months ended September 30, 2012 and 2011, the Company recognized \$54 and \$73, respectively, in stock-based compensation cost.

(4) Comprehensive Income. Comprehensive income for the third quarter (3Q) and first nine months (9M) of 2012 was \$3,397 and \$8,740, net of taxes, respectively. The components used to calculate comprehensive income were foreign currency translation adjustments of \$670 and \$819 in 3Q and 9M 2012, respectively, and unrealized holding gains (losses) of \$6 and \$10 in 3Q and 9M 2012, respectively.

(5) Acquisition. On March 18, 2011, UTMD purchased all of the common shares of Femcare Holdings Ltd (Femcare) of the United Kingdom, and its subsidiaries. The acquisition was accretive to financial performance in both 3Q and 9M 2011 as well as 3Q and 9M 2012.

A two-year escrow was set aside from the purchase price to back the warranties and representations of the sellers. No claims against the escrow have been made by UTMD.

Proforma Information

Revenue and net income of the combined entity as though the business combination occurred as of the beginning of the reporting period is:

Nine months ended	Nine months ended
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	September 30, 2012 (as reported)	September 30, 2011
Revenue	\$ 31,719	\$ 31,873
Net income	7,910	6,301

Pro forma net income of \$6,301 for the nine months ended September 30, 2011 does not include \$293 in UTMD legal costs directly attributable to the acquisition, and \$1,765 in Femcare expenses for employee shareholder bonuses, loan redemption premium related to termination of ownership, buy-out of warrants, financial advisory fees and an insurance premium for sellers' liability which are directly attributable to the acquisition.

The March 18, 2011 purchase price was allocated as follows:

Assets Acquired	
Accounts receivable	\$ 2,176
Prepaid expenses	773
Inventory	1,319
Property and equipment	606
Identifiable intangibles	
Patents	97
Non-compete agreements	162
Trademarks, trade names	11,559
Customer relationships	11,559
Regulatory approvals & product certifications	15,419
Goodwill	8,249
Total assets acquired	51,919
Liabilities Assumed	
Accounts payable	1,107
Accrued expenses	644
Deferred tax liability	9,084
Total liabilities assumed	10,835
Net assets acquired	\$ 41,084

(6) Notes payable. In March, 2011, UTMD obtained a \$14,000 loan from JPMorgan Chase Bank, N.A. (Chase), to help finance the purchase price of Femcare. The terms and conditions of the loan require UTMD to a) repay the loan 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 UTMD's TNW at closing on March 18, 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 September 30, 2012. Based on UTMD's financial position, the bank's margin was 2.00% at September 30, 2012. The principal balance on this note at September 30, 2012 was \$5,600.

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 loan are the same as those listed above for the \$14,000 U.S. loan. The principal balance on this note at September 30, 2012 was \$9,034.

In December 2005, the Company borrowed \$5,336 from the Bank of Ireland to finance repatriation of profits achieved from 1996 through 2005 under The American Jobs Creation Act of 2004. The loan term is 10-years at an interest rate of 1.10% plus the bank's money market rate, which is a total of the bank's cost of funds and cost of liquidity. The balance on the note at September 30, 2012 was \$231.

(7) **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 warranty reserve was made at January 1, 2012 or September 30, 2012.

(8) **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:

	3Q 2012	3Q 2011
Balance, beginning of period	\$ (188)	\$ (181)
Realized loss from securities included in beginning balance	-	-
Gross unrealized holding gains (losses), in equity securities	8	(25)
Deferred income taxes on unrealized holding loss	(3)	10
Balance, end of period	\$ (183)	\$ (196)

(9) **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, 2012:

Description	Fair Value Measurements Using			
	Total Fair Value at 9/30/2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Common stock	\$ 81	\$ 81	\$ 0	\$ 0

(10) **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, 2011 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. Currency amounts in the report are in thousands, except per-share amounts or where otherwise noted.

Analysis of Results of Operations

a) Overview

In the third calendar quarter (3Q) of 2012, operating profits, net income, and earnings per share were substantially higher compared to 3Q 2011. In the first nine months (9M) of 2012, all income statement measures were significantly higher compared to 9M 2011. A table of income statement measures for 3Q and 9M 2012 compared to the same periods in 2011 follows:

	3Q 2012	3Q 2011	change	9M 2012	9M 2011	change
Net Sales	\$10,489	\$10,784	(2.7 %)	\$31,719	\$27,954	13.9 %
Gross Profit	6,477	6,518	(0.6 %)	19,286	16,487	17.0 %
Operating Income	3,960	3,539	11.9 %	11,627	8,929	30.2 %
Income Before Tax	3,849	3,274	17.6 %	11,215	8,368	34.0 %
Net Income	2,721	2,237	21.6 %	7,910	5,556	42.4 %
Earnings per Share	.730	.614	18.9 %	2.134	1.526	39.9 %

A comparison of profit margins for 3Q and 9M 2012 compared to the same periods in 2011 follows:

	3Q 2012		3Q 2011		9M 2012		9M 2011
Gross Profit Margin	61.7	%	60.4	%	60.8		