

UTAH MEDICAL PRODUCTS INC  
Form 10-Q  
November 07, 2018

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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: September 30, 2018 Commission File No. 001-12575

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 6, 2018:  
3,734,200.

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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, 2018 AND DECEMBER 31, 2017  
(in thousands)

|   | (unaudited)<br>SEPTEMBER<br>30,<br>2018 | (audited)<br>DECEMBER<br>31,<br>2017 |
|---|---|--------------------------------------|
| <u>ASSETS</u>   |   |                                      |
| Current assets:   |   |                                      |
| Cash  | \$ 49,352                               | \$ 39,875                            |
| Investments, available-for-sale   | 0                                       | 80                                   |
| Accounts & other receivables, net   | 4,476                                   | 3,623                                |
| Inventories   | 4,920                                   | 5,244                                |
| Other current assets  | 307                                     | 366                                  |
| Total current assets  | 59,055                                  | 49,188                               |
| Property and equipment, net   | 10,574                                  | 11,621                               |
| Goodwill  | 13,854                                  | 14,092                               |
| Other intangible assets   | 33,693                                  | 34,805                               |
| Other intangible assets - accumulated amortization  | (18,024)                                | (16,961)                             |
| Other intangible assets, net  | 15,669                                  | 17,844                               |
| Total assets  | \$ 99,152                               | \$ 92,745                            |
| <u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>   |   |                                      |
| Current liabilities:  |   |                                      |
| Accounts payable  | \$ 668                                  | \$ 934                               |
| Accrued expenses  | 4,102                                   | 4,346                                |
| Total current liabilities   | 4,770                                   | 5,280                                |
| Deferred tax liability - intangible assets  | 2,698                                   | 3,102                                |
| Other long term liabilities   | 2,441                                   | 5,785                                |
| Deferred income taxes   | 412                                     | 456                                  |
| Total liabilities   | 10,321                                  | 14,623                               |
| 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, 2018, 3,734 shares and December 31, 2017, 3,721 shares | 37                                      | 37                                   |
| Accumulated other comprehensive income (loss)   | (10,261)                                | (8,341)                              |
| Additional paid-in capital  | 1,297                                   | 809                                  |
| Retained earnings   | 97,758                                  | 85,617                               |
| Total stockholders' equity  | 88,831                                  | 78,122                               |
| Total liabilities and stockholders' equity  | \$ 99,152                               | \$ 92,745                            |

see notes to consolidated condensed financial statements



UTAH MEDICAL PRODUCTS, INC. AND SUBSIDIARIES  
CONSOLIDATED CONDENSED STATEMENTS OF INCOME FOR THE  
THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018 AND SEPTEMBER 30, 2017  
(in thousands, except per share amounts - unaudited)

|   | THREE<br>MONTHS<br>ENDED<br>SEPTEMBER<br>30,<br>2018 |          | NINE MONTHS<br>ENDED<br>SEPTEMBER<br>30,<br>2017 |          |
|---|--|----------|--|----------|
| Sales, net  | \$10,390   | \$10,125 | \$32,242   | \$31,213 |
| Cost of goods sold  | 4,096  | 3,629    | 12,042   | 11,288   |
| Gross profit  | 6,294  | 6,496    | 20,200   | 19,925   |
| Operating expense   |  |          |  |          |
| Selling, general and administrative                             | 1,784  | 1,714    | 5,433  | 5,146    |
| Research & development  | 108  | 103      | 338  | 341      |
| Total operating expense   | 1,892  | 1,817    | 5,771  | 5,487    |
| Operating income  | 4,402  | 4,679    | 14,429   | 14,438   |
| Other income (expense)  | 79   | 17       | 617  | 65       |
| Income before provision for income taxes                        | 4,481  | 4,696    | 15,046   | 14,503   |
| Provision for income taxes                                      | (2,281)  | 1,074    | (116)  | 3,476    |
| Net income  | \$6,762  | \$3,622  | \$15,162   | \$11,027 |
| Earnings per common share (basic)                               | \$1.81   | \$0.97   | \$4.07   | \$2.97   |
| Earnings per common share (diluted)                             | \$1.80   | \$0.97   | \$4.04   | \$2.95   |
| Shares outstanding - basic                                      | 3,733  | 3,719    | 3,730  | 3,716    |
| Shares outstanding - diluted                                    | 3,753  | 3,738    | 3,752  | 3,734    |
| Other comprehensive income (loss):                              |  |          |  |          |
| Foreign currency translation net of taxes of \$0 in all periods | \$(385)  | \$1,223  | \$(1,920)  | \$3,559  |
| Total comprehensive income                                      | \$6,377  | \$4,845  | \$13,242   | \$14,586 |

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, 2018 AND SEPTEMBER 30, 2017  
(in thousands - unaudited)

|   | SEPTEMBER |          |
|---|-----------|----------|
|   | 30,       | 2017     |
|   | 2018      | 2017     |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                      |           |          |
| Net income  | \$15,162  | \$11,027 |
| Adjustments to reconcile net income to net cash provided by operating activities: |           |          |
| Depreciation  | 577       | 489      |
| Amortization  | 1,663     | 1,568    |
| (Gain) loss on investments  | (32 )     | -        |
| Provision for (recovery of) losses on accounts receivable                         | (1 )      | (2 )     |
| (Gain) loss on disposal of assets   | (409 )    | -        |
| Deferred income taxes   | (352 )    | (281 )   |
| Stock-based compensation expense  | 53        | 99       |
| Tax benefit attributable to exercise of stock options                             | 44        | 25       |
| Changes in operating assets and liabilities:                                      |           |          |
| Accounts receivable - trade   | (948 )    | (1,340 ) |
| Accrued interest and other receivables  | 0         | (5 )     |
| Inventories   | 255       | (301 )   |
| Prepaid expenses and other current assets   | 52        | 40       |
| Accounts payable  | (258 )    | 201      |
| Accrued expenses  | (3,455 )  | 803      |
| Total adjustments   | (2,811 )  | 1,296    |
| Net cash provided by operating activities   | 12,351    | 12,323   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                      |           |          |
| Capital expenditures for:   |           |          |
| Property and equipment  | (255 )    | (174 )   |
| Intangible assets   | -         | -        |
| Purchases of investments  | -         | -        |
| Proceeds from sale of:  |           |          |
| Investments   | 74        | -        |
| Property and equipment  | 862       | -        |
| Net cash (used in) provided by investing activities                               | 681       | (174 )   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                      |           |          |
| Proceeds from issuance of common stock - options                                  | 436       | 224      |
| Payment of dividends  | (3,018 )  | (1,969 ) |
| Net cash (used in) provided by financing activities                               | (2,582 )  | (1,745 ) |
| Effect of exchange rate changes on cash   | (973 )    | 738      |
| Net increase in cash and cash equivalents   | 9,477     | 11,142   |
| Cash at beginning of period   | 39,875    | 26,296   |
| Cash at end of period   | \$49,352  | \$37,438 |

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

|  |         |         |
|--|---------|---------|
| Cash paid during the period for income taxes | \$3,820 | \$3,753 |
| Cash paid during the period for interest     | -       | -       |

see notes to consolidated condensed financial statements

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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, 2017. 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) Recent Accounting Standards.

In May 2014, new accounting guidance (ASU 2014-09) was issued that outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The guidance is based on the principle that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to fulfill a contract. UTMD adopted this new standard on January 1, 2018, using a modified retrospective approach. In accordance with ASU 2014-09, UTMD's revenue recognition is based on standard terms & conditions of sale for like customers in addition to contracts and the performance obligations identified in them. With very insignificant and limited exceptions, the Company's performance obligation is met when it ships a physical product to a customer. The basis on which UTMD recognizes revenue was updated on January 1, 2018, but it did not result in a change to the process and timing of revenue recognition, because the previous revenue recognition method complies with ASU 2014-09. Therefore, the adoption of ASU 2014-09 did not have an impact on UTMD's financial statements. In accordance with this adoption disaggregated revenue is presented in Note 7.

In February 2016, new accounting guidance was issued which requires recording most leases on the balance sheet. The new lease standard requires disclosure of key information about lease arrangements and aligns many of the underlying principles of this new model with those in the new revenue recognition standard noted above. This guidance becomes effective for annual reporting periods beginning after December 15, 2018, with early adoption permitted. UTMD has yet to assess the impact that this standard will have on its consolidated financial statements when it is adopted. The only significant lease the Company anticipates it will have at that time is for the parking lot at its Utah facility.

## (3) Inventories at September 30, 2018, and December 31, 2017, consisted of the following:

|                 | September<br>30,<br>2018 | December<br>31,<br>2017 |
|-----------------|--------------------------|-------------------------|
| Finished goods  | \$ 1,413                 | \$ 1,313                |
| Work in process | 1,106                    | 1,270                   |
| Raw materials   | 2,401                    | 2,661                   |
| Total           | \$ 4,920                 | \$ 5,244                |

(4) Stock-Based Compensation. At September 30, 2018, 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, Compensation - 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, 2018, and 2017, the Company recognized \$11 and \$30, respectively, in stock based compensation cost. In the nine months ended September 30, 2018, and 2017, the Company recognized \$35 and \$99, respectively, in stock based compensation cost.

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(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, 2017, or September 30, 2018.

(6) Fair Value Measurements. The Company follows ASC 820, Fair Value Measurement to determine fair value of its financial assets. The following table provides financial assets carried at fair value measured as of September 30, 2018:

| Description | Total Fair Value at 9/30/2018 | Fair Value Measurements Using Quoted Prices in Active Markets for Significant |                                   |   |
|-------------|-------------------------------|---|-----------------------------------|---|
|             |                               | Identifiable Assets (Level 1)   | Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Equities    | \$ 0                          | \$ 0  | \$ 0                              | \$ 0                                      |

(7) Global revenues (USD) by product category:

|   | Outside  |          |           |
|---|----------|----------|-----------|
|   | Domestic | US       | Total     |
| Obstetrics                                | \$ 973   | \$ 114   | \$ 1,087  |
| Gynecology/Electrosurgery/Urology         | 1,806    | 3,700    | 5,506     |
| Neonatal                                  | 1,138    | 464      | 1,602     |
| Blood Pressure Monitoring and Accessories | 1,352    | 843      | 2,195     |
| Total                                     | \$ 5,269 | \$ 5,121 | \$ 10,390 |

(8) 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

Utah Medical Products, Inc. (UTMD) manufactures and markets a well-established range of specialty medical devices. The Company's Form 10-K Annual Report for the year ended December 31, 2017, provides a detailed description of products, technologies, markets, regulatory issues, business initiatives, resources and business risks, among other details, and should be read in conjunction with this report. Because of the relatively short span of time, results for any given three month period in comparison with a previous three month period may not be indicative of comparative results for the year as a whole. Currency amounts in the report are in thousands, except per share amounts or where otherwise noted. Currencies in this report are denoted as \$ or USD = U.S. Dollars; A\$ or AUD = Australia Dollars; £ or GBP = UK Pound Sterling; C\$ or CAD = Canadian Dollars; and € or EUR = Euros.

## Analysis of Results of Operations

## a) Overview

In the third calendar quarter (3Q) and first nine months (9M) of 2018, UTMD achieved results which conform with the Company's previously announced goals for 2018.

Financial results in 3Q and 9M 2018, according to U.S. Generally Accepted Accounting Principles (GAAP), were masked by a favorable adjustment to UTMD's initial provisional estimate of its "one time" U.S. repatriation (REPAT) tax liability resulting from the "Tax Cuts and Jobs Act" (TCJA) enacted in December 2017. UTMD's initial estimate of the combined Federal and Utah State REPAT tax was \$6,288, recorded in 4Q 2017 financial results, the period in which the TCJA was enacted by Congress. In 3Q 2018, after more IRS information became available and when UTMD's independent tax advisors completed the 2017 income tax return, it became known to the Company that the actual REPAT tax liability is \$3,058, resulting in a favorable \$3,230 adjustment to UTMD's 3Q 2018 income tax provision. In addition, there is a new Global Intangible Low-Taxed Income (GILTI) tax applicable for 2018 that resulted from the TCJA, an estimate for which is included in the 3Q 2018 tax provision for the first time. All income statement categories of UTMD's operating performance are unaffected by the REPAT tax adjustment and GILTI tax estimate except for Net Income (NI), profits after tax, and Earnings Per Share (EPS).

UTMD management believes that the presentation of results excluding the favorable REPAT tax liability adjustment, and the new 2018 GILTI tax, to its 3Q 2018 and 9M 2018 income tax provision, provides meaningful supplemental information to both management and investors that is more clearly indicative of UTMD's operating results in 2018 compared to 2017. For clarity, there is no difference in the GAAP and non-GAAP income statement numbers except for NI and EPS.

Income statement results in 3Q and 9M 2018 compared to the same periods of 2017 were as follows:

|                                  | 3Q<br>2018 | 3Q<br>2017 | change  | 9M 2018  | 9M 2017  | change  |
|----------------------------------|------------|------------|---------|----------|----------|---------|
| Net Sales                        | \$10,390   | \$10,125   | +2.6 %  | \$32,242 | \$31,213 | +3.3 %  |
| Gross Profit                     | 6,294      | 6,496      | (3.1 %) | 20,200   | 19,925   | +1.4 %  |
| Operating Income                 | 4,402      | 4,679      | (5.9 %) | 14,429   | 14,438   | (0.1 %) |
| Income Before Tax                | 4,481      | 4,696      | (4.6 %) | 15,046   | 14,503   | +3.7 %  |
| NI Before REPAT Tax Adjust       | 3,582      | 3,622      | (1.1 %) | 11,982   | 11,027   | +8.7 %  |
| Net Income (NI)                  | 6,762      | 3,622      | +86.7 % | 15,162   | 11,027   | +37.5 % |
| EPS Before REPAT Tax Adjust      | 0.954      | 0.969      | (1.5 %) | 3.194    | 2.953    | +8.1 %  |
| Earnings per Diluted Share (EPS) | 1.802      | 0.969      | +85.9 % | 4.041    | 2.953    | +36.8 % |

Opposite to first half (1H) 2018, UTMD's relative 3Q 2018 sales performance was reduced by a stronger USD. Revenues in 3Q 2018 would have been \$76 higher using the same foreign currency exchange (FX) rates as in the prior year ("constant currency"). However, because of the weaker USD in 1H 2018, revenues in 9M 2018 would have been \$443 lower in constant currency. The FX rate change represented 43% of the 9M 2018 sales increase relative to 9M 2017. UTMD's FX rates for income statement purposes are transaction-weighted averages. The average rates from the applicable foreign currency to USD during 3Q 2018 and 9M 2018 compared to the same periods in 2017 follow:

|     | 3Q 18 | 3Q 17 | Change  |  | 9M 18 | 9M 17 | Change  |
|-----|-------|-------|---------|--|-------|-------|---------|
| GBP | 1.304 | 1.312 | (0.6 %) |  | 1.351 | 1.277 | +5.7 %  |
| EUR | 1.165 | 1.172 | (0.6 %) |  | 1.193 | 1.116 | +7.0 %  |
| AUD | 0.732 | 0.789 | (7.2 %) |  | 0.758 | 0.766 | (1.1 %) |
| CAD | 0.765 | 0.800 | (4.3 %) |  | 0.778 | 0.764 | +1.8 %  |

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UTMD's revenues invoiced in the above foreign currencies represented 32.2% of total consolidated USD sales in 3Q 2018 and 32.6% in 9M 2018.

Although sales were higher than expected, UTMD realized pressure on its operating profit margins in 3Q 2018.

The associated key profit margins (profits as a percentage of sales) compared to the same time periods in the prior calendar year were as follows:

|                                    | 3Q18   | 3Q17   | 9M18   | 9M17   |
|------------------------------------|--------|--------|--------|--------|
| Gross Profit Margin (GPM):         | 60.6 % | 64.2 % | 62.7 % | 63.8 % |
| Operating Income Margin (OIM):     | 42.4 % | 46.2 % | 44.8 % | 46.3 % |
| Earnings Before Tax Margin (EBTM): | 43.1 % | 46.4 % | 46.7 % | 46.5 % |
| Net Income Margin (NIM):           | 65.1 % | 35.8 % | 47.0 % | 35.3 % |
| NIM (non-GAAP):                    | 34.5 % | 35.8 % | 37.2 % | 35.3 % |

UTMD's consolidated 9M 2018 GPM was squeezed primarily due to higher direct materials costs combined with lack of price increases to customers. Direct labor productivity was consistent with the prior year. Consolidated Operating Expenses (OE) were \$284 higher in 9M 2018 compared to 9M 2017. OE are comprised of general and administrative (G&A), sales and marketing (S&M) and product development (R&D) expenses. Sixty-one percent of the increase in total OE came from the UK subsidiary G&A. Included in G&A expenses, the UK amortization of IIA was the same in GBP in 9M 2018 as in 9M 2017, but \$91 higher because of USD/GBP FX rates. Remaining 9M 2018 UK G&A expenses were \$81 higher than in 9M 2017 even though expenses were just GBP 39 higher. The remaining higher OE was due to higher worldwide S&M expenses, which were \$137 higher with very little impact due to FX rates. U.S. S&M expenses were \$85 higher in 9M 2018 than in 9M 2017, and OUS S&M expense were \$52 higher, as a result of adding additional people and increasing trade show attendance. The combination of a lower GPM and higher OE resulted in Operating Income (OI) about the same in 9M 2018 as in 9M 2017 despite 3% higher sales.

The 37% higher Net Income (NI) in 9M 2018 was a result of a favorable \$3,230 REPAT tax adjustment less a \$50 GILTI tax provision accrual and \$551 higher non-operating income (NOI) compared to 9M 2017. Excluding the REPAT tax adjustment and GILTI tax accrual, non-GAAP NI was \$955 (+8.7%) higher in 9M 2018 than in 9M 2017 due to the higher NOI and an average consolidated income tax rate in 9M 2018 3.6 percentage points lower than in 9M 2017 due to the TCJA. For the same reasons as NI, Earnings Per Diluted Share (EPS) in 9M 2018 were up 37%. Non-GAAP EPS, excluding the REPAT tax adjustment and GILTI tax accrual, was \$0.241 (+8.1%) higher in 9M 2018 than in 9M 2017. EPS for the most recent twelve months (TTM), which included a \$6,288 4Q 2017 REPAT tax accrual and the (\$3,230) 3Q 2018 REPAT tax accrual adjustment were \$3.37. TTM non-GAAP EPS were \$4.14.

UTMD's September 30, 2018 balance sheet compared with its December 31, 2017 balance sheet demonstrates continued strengthening. Working capital increased \$10,377 in 9M 2018. Capital expenditures for property and equipment were \$255 in 9M 2018, compared to depreciation expense of \$577. In 9M 2018 UTMD distributed \$3,018 in cash dividends to its stockholders.

UTMD's FX rates for balance sheet purposes are the applicable rates at the end of each reporting period. The FX rates from the applicable foreign currency to USD for assets and liabilities at the end of September 2018 and the end of September 2017 follow:

|     | September<br>30,<br>2018 | September<br>30,<br>2017 | Change  |
|-----|--------------------------|--------------------------|---------|
| GBP | 1.306                    | 1.340                    | (2.6 %) |
| EUR | 1.163                    | 1.181                    | (1.6 %) |
| AUD | 0.724                    | 0.784                    | (7.7 %) |

CAD 0.774 0.799 (3.2 %)

## b) Revenues

Beginning on January 1, 2018, the Company adopted ASU 2014-09, the new revenue recognition accounting standard. Management completed an extensive assessment and implementation of the standard, including UTMD's various contracts with customers and associated performance obligations and the Company's conclusions regarding its revenue recognition practices and procedures. Other items like commissions and rights of return were also evaluated by the Company. Management is confident that the Company has properly evaluated the standard's requirements and has arrived at appropriate conclusions in recognizing revenue in accordance with the new standard. Those practices and procedures the Company will use to recognize revenue under the new standard are not significantly different than the methods used previously since UTMD has traditionally recognized revenue upon shipping a physical product to a customer, which is also when the Company has met its performance obligations under contracts it has with its customers that represent over 99% of its revenue. While the Company's revenue not associated with shipping a physical product is immaterial, management believes the Company's practices in recognizing that revenue is also in accordance with ASU 2014-09.

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Terms of sale are established in advance of UTMD's acceptance of customer orders. In the U.S., Ireland, UK and Australia prior to 2017, UTMD generally accepted orders directly from and shipped directly to end user clinical facilities, as well as third party medical/surgical distributors, under UTMD's Standard Terms and Conditions (T&C) of Sale. The same was true in 2017 with the addition of direct shipments to end user facilities in Canada and France. About 14% of UTMD's domestic end user sales, excluding Femcare's Filshie Clip System sales to its exclusive U.S. distributor, CooperSurgical Inc. (CSI), go through third party med/surg distributors which contract separately with clinical facilities to provide purchasing, storage and scheduled delivery functions for the applicable facility. UTMD's T&C of Sale to end user facilities are substantially the same in the U.S., Canada, Ireland, UK, France and Australia.

UTMD may have separate discounted pricing agreements with a specific clinical facility or group of affiliated facilities based on volume of purchases. Pricing agreements which are documented arrangements with clinical facilities, or groups of affiliated facilities, if applicable, are established in advance of orders accepted or shipments made. For existing customers, past actual shipment volumes typically determine the fixed price by part number for the next agreement period of one year. For new customers, the customer's best estimate of volume is usually accepted by UTMD for determining the ensuing fixed prices for the agreement period. Prices are not adjusted after an order is accepted. For the sake of clarity, the separate pricing agreements with clinical facilities based on volume of purchases disclosure is not inconsistent with UTMD's disclosure that the selling price is fixed prior to the acceptance of a specific customer order.

Total 3Q 2018 consolidated sales were \$265 (+2.6%) higher than in 3Q 2017, despite a negative FX impact of (\$76). Total 9M 2018 were \$1,029 (+3.3%) higher than in 9M 2017, and were helped by a favorable FX impact of +\$443. Comparing 3Q 2018 to 3Q 2017, total U.S. domestic sales were 7% higher and USD sales outside the U.S. (OUS sales) were 2% lower. Eighty-four percent of the lower 3Q 2018 OUS sales were due to FX rate differences. Comparing 9M 2018 to 9M 2017, total U.S. domestic sales were 4% higher and OUS sales were 3% higher. Ninety-eight percent of the higher 9M 2018 OUS sales were due to FX rate differences.

U.S. domestic sales were \$356 (+7.2%) higher in 3Q 2018 than in 3Q 2017, and \$577 (+3.7%) higher in 9M 2018 than in 9M 2017. Domestic sales were 51% of total consolidated sales in 3Q 2018 compared to 49% in 3Q 2017, and 50% in 9M 2018 compared to 49% in 9M 2017. Sales of Femcare's Filshie Clip System to CooperSurgical Inc. (CSI) for distribution in the U.S. were \$156 (23.6%) lower in 3Q 2018 compared to 3Q 2017, and \$194 (6.4%) lower in 9M 2018 compared to 9M 2017. Femcare's sales to CSI were 10% of total domestic sales in 3Q 2018 compared to 13% in 3Q 2017, and 18% in 9M 2018 compared to 20% in 9M 2017. Domestic OEM sales were \$224 (+27.1%) higher in 3Q 2018 compared to 3Q 2017, and \$548 (+23.4%) higher in 9M 2018 compared to 9M 2017. Direct sales to U.S. user facilities were \$287 (+8.4%) higher in 3Q 2018 compared to 3Q 2017, and \$223 (+2.2%) higher in 9M 2018 compared to 9M 2017.

OUS sales consolidated in USD in 3Q 2018 were \$91 (1.7%) lower than in 3Q 2017, and \$452 (+2.9%) higher in 9M 2018 than in 9M 2017. Constant currency OUS sales were 0.3% lower in 3Q 2018 than in 3Q 2017, and 0.1% higher in 9M 2018 compared to 9M 2017. Trade sales are sales to third parties, excluding sales from one UTMD entity to another (intercompany sales). UK subsidiary USD-denominated OUS trade sales, including direct sales to France clinical facilities, were 26% of total OUS sales in 3Q 2018 compared to 25% in 3Q 2017, and 27% in 9M 2018 compared to 24% in 9M 2017. Included in the Femcare UK sales were the direct sales to end users in France which comprised 7% of OUS sales in both 3Q 2018 and 3Q 2017, and 8% in 9M 2018 compared to 6% in 9M 2017. Australia subsidiary USD sales were 9% of total OUS sales in 3Q 2018 compared to 11% in 3Q 2017, and 9% in 9M 2018 compared to 11% in 9M 2017. Ireland subsidiary USD trade sales were 29% of total OUS sales in 3Q 2018 compared to 26% in 3Q 2017, and 25% in both 9M 2018 and 9M 2017. Canada subsidiary USD sales were 11% of total OUS sales in 3Q 2018 compared to 13% in 3Q 2017, and 12% in 9M 2018 compared to 14% in 9M 2017.

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



Global revenues by product category:

|  | 3Q       | 3Q       |          |          |
|--|----------|----------|----------|----------|
|  | 2018     | 2017     | 9M 2018  | 9M 2017  |
| Obstetrics                                 | \$1,087  | \$1,218  | \$3,268  | \$3,372  |
| Gynecology/ Electrosurgery/ Urology        | 5,506    | 5,529    | 17,781   | 17,473   |
| Neonatal                                   | 1,602    | 1,510    | 5,047    | 4,574    |
| Blood Pressure Monitoring and Accessories* | 2,195    | 1,868    | 6,146    | 5,794    |
| Total:                                     | \$10,390 | \$10,125 | \$32,242 | \$31,213 |

OUS revenues by product category:

|  | 3Q<br>2018 | 3Q<br>2017 | 9M 2018  | 9M 2017  |
|--|------------|------------|----------|----------|
| Obstetrics                                 | \$114      | \$172      | \$527    | \$533    |
| Gynecology/ Electrosurgery/ Urology        | 3,700      | 3,691      | 11,302   | 10,966   |
| Neonatal                                   | 464        | 543        | 1,913    | 1,540    |
| Blood Pressure Monitoring and Accessories* | 843        | 805        | 2,495    | 2,746    |
| Total:                                     | \$5,121    | \$5,211    | \$16,237 | \$15,785 |

\*includes molded components sold to OEM customers.

Looking forward, sales in 4Q 2018 are expected to be lower than in 4Q 2017 from two main sources which are both related to the timing of shipments to a third party distributor:

UTMD's China distributor for BPM kits has in the past typically purchased about \$400 per shipment, representing about a three month supply. At the distributor's request, there were five such shipments in 2017 totaling \$1,964.

1) There have been three shipments in 9M 2018 totaling \$1,248, with nothing additional scheduled for 4Q 2018. The resulting lower sales to this distributor in 4Q 2018 compared to 4Q 2017 is \$425. This distributor's annual blanket order for 2019 for \$1,699, which has been received, is scheduled for four shipments.

2) CSI, Femcare's U.S. distributor for the Filshie Clip System, per the Distribution Agreement, receives six shipments per year - typically two shipments per calendar quarter in the first half of the year, and one shipment per quarter in the second half of the year. There have been five shipments in 9M 2018 totaling \$2,840 compared to \$3,033 in 9M 2017. The final CSI shipment scheduled in 4Q 2018 is about \$272 lower than in 4Q 2017. As a result, total Femcare shipments to CSI in 2018 compared to 2017 are expected to be \$465 (12%) lower than in 2017. Sales to CSI in 2017 compared to 2016 were 28% higher than in 2016.

As sales to these two distributors are in fixed USD, fluctuations in FX rates do not affect the revenue numbers. Although UTMD considers the lower 4Q 2018 compared to 4Q 2017 sales to these distributors to represent quarterly order pattern fluctuations, not a trend, management does not believe that UTMD will make up the almost \$700 lower 4Q 2018 sales from growth in other areas because of a likely negative change in average 4Q 2018 FX rates compared to 4Q 2017. Comparing the (above) September 30, 2018 FX rates used for balance sheet purposes with the (above) weighted-average FX rates for the 3Q 2018 income statement revenues and expenses, indicates a recent trend in declining value of foreign currencies relative to the USD. The trend did continue in October 2018. Although management typically does not try to project changes in FX rates, which it considers to be futile, since about one-third of total consolidated revenues are invoiced in foreign currencies, there could be a negative FX impact on same foreign currency sales relative to 4Q 2017 as much as another \$100. There is an additional 4Q FX rate negative impact risk that foreign distributors which purchase UTMD products in USDs (roughly one-sixth of total consolidated sales) might delay purchases to 2019 if they think the USD will weaken later, and they have sufficient inventory to support that gamble.

Despite the anticipated lower 4Q 2018 sales compared to 4Q 2017, UTMD expects to meet or exceed its beginning of year projection of flat sales for the 2018 year as a whole.

#### c) Gross Profit (GP)

GP is revenues (sales) minus the cost of manufacturing (CGS) or purchase price of finished devices for resale. CGS is comprised of direct labor (DL), direct materials (DM) and manufacturing overhead (MOH). UTMD's consolidated GP in 3Q 2018 was \$203 lower than in 3Q 2017, while sales were \$265 higher. UTMD's 9M 2018 GP was only \$275 higher than in 9M 2017, while sales were \$1,029 higher. This GP dilution obviously resulted from lower GPMs (GP

divided by sales) as shown in the table above.

DM expense represented 53.6% of CGS in 3Q 2018 compared to 50.3% of CGS in 3Q 2017. The 3Q 2017 GPM was helped by a favorable \$80 adjustment in UTMD's U.S. health plan reserve (representing about 0.8 GPM percentage points for the quarter) due to better than expected employee medical cost experience, which did not recur in 3Q 2018. Except for that one-time 3Q 2017 reserve adjustment, DL and MOH productivity in both 3Q and 9M 2018 was consistent with 3Q and 9M 2017 on a variable sales basis. Expected higher tariffs are playing a role in UTMD vendor quotes for DM. With only a few exceptions, UTMD has not yet raised finished device prices to its customers in response to higher DM costs.

d) Operating Income (OI)

OI is GP minus Operating Expense (OE). Due to lower GP and higher OE, OI in 3Q and 9M 2018 was \$4,402 and \$14,429 respectively, compared to \$4,679 and \$14,438 in 3Q and 9M 2017 respectively. Although lower OI with higher sales diluted UTMD's 3Q and 9M 2018 OIMs compared to 3Q and 9M 2017, per the table above, UTMD's continued excellent OIM remains key to its financial success.

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OE are comprised of general and administrative (G&A) expenses, sales and marketing (S&M) expenses and product development (R&D) expenses. Consolidated USD-denominated OE were \$1,892 in 3Q 2018 (18.2% of consolidated revenues) compared to \$1,817 in 3Q 2017 (17.9% of consolidated revenues). Consolidated OE were \$5,771 in 9M 2018 (17.9% of revenues) compared to \$5,487 in 9M 2017 (17.6% of revenues).

|           | 3Q      | 3Q      |        | 9M 2018 | 9M2017  |        |
|-----------|---------|---------|--------|---------|---------|--------|
| OE        | 2018    | 2017    | Change |         |         | Change |
| S&M       | \$452   | \$364   | + 88   | \$1,291 | \$1,154 | + 137  |
| G&A       | 1,332   | 1,350   | (18 )  | 4,142   | 3,993   | + 149  |
| R&D       | 108     | 103     | + 5    | 338     | 341     | (2 )   |
| Total OE: | \$1,892 | \$1,817 | + 75   | \$5,771 | \$5,487 | + 284  |

S&M expenses were 4.3% of revenues in 3Q 2018 compared to 3.6% of revenues in 3Q 2017. In 9M 2018, S&M expenses were 4.0% of revenues compared to 3.7% of revenues in 9M 2017. Consolidated S&M expenses increased because UTMD added a marketing person in the U.S. and a fluent French-speaking S&M person in the UK to help better service direct accounts in France. UTMD also expanded participation in clinical trade shows in 9M 2018. In addition, although changed FX rates did not increase 3Q 2018 OUS subsidiary S&M expenses relative to 3Q 2017, they did increase 9M 2018 OUS S&M expense by \$15. In other words, 11% of the 9M consolidated S&M expense increase was due to FX rate differences.

S&M expenses include all customer support costs including training. In general, training is not required for UTMD's medical devices since they are well-established and have been clinically widely used. Written "Instructions For Use" are packaged with all finished devices. Although UTMD does not have any explicit contracts with customers to provide training, it does have agreements in the U.S. and UK under which it agrees to provide hospital members inservice and clinical training as required and reasonably requested.

UTMD promises prospective customers that it will provide, at no charge in reasonable quantities, copies of instruction materials developed for the use of its products. UTMD provides customer support from offices in the U.S., Canada, the UK, Ireland and Australia by telephone, and employed representatives on a geographically dispersed basis, to answer user questions and help troubleshoot any user issues. Occasionally, on a case-by-case basis, UTMD may utilize the services of an independent practitioner to provide educational assistance to clinicians. All inservice and training expenses are routinely expensed as they occur. All of these services are allocated from S&M overhead costs included in OE. Historically, marginal consulting costs have been immaterial to financial results.

G&A expenses were 12.8% of revenues in 3Q 2018 compared to 13.3% of revenues in 3Q 2017. In both 9M 2018 and 9M 2017, G&A expenses were 12.8% of revenues. G&A expenses include the cost of outside financial auditors and corporate governance activities related to the implementation of SEC rules resulting from the Sarbanes-Oxley Act of 2002, as well as estimated stock-based compensation cost, a noncash expense. Option compensation expense included in G&A expenses was \$11 in 3Q 2018 compared to \$30 in 3Q 2017, and \$53 in 9M 2018 compared to \$99 in 9M 2017. G&A expenses also include the amortization of identifiable intangible assets (IIA) which resulted from the 2011 Femcare acquisition. Although the amortization expense in GBP was the same for the respective periods in both 2018 and 2017, in USD terms 3Q 2018 amortization of IIA was \$2 lower than in 3Q 2017, and in 9M 2018 \$91 higher than in 9M 2017. In other words, the FX rate change impact on IIA asset amortization expense represented 61% of the increase in consolidated 9M 2018 G&A expenses. Including all G&A expenses, the FX rate change represented 92% of the \$149 increase in total consolidated G&A expenses in 9M 2018 compared to 9M 2017. The FX rate change represented 49% of the \$18 decrease in total consolidated G&A expenses in 3Q 2018 compared to 3Q 2017. In other words, in the aggregate there were no significant changes to G&A expenses other than the FX rate impact.

R&D expenses were 1.0% of sales in both 3Q 2018 and 3Q 2017. R&D expenses were 1.0% of sales in 9M 2018 compared to 1.1% of sales in 9M 2017. As virtually all R&D expenses were in the U.S., there was no FX rate impact.

Variations in R&D expenses result from costs of projects, including engineering time, in different stages of completion. At UTMD, R&D engineers also devote much of their time to manufacturing process improvements.

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## e) Non-operating expense (NOE)/ Non-operating income (NOI)

NOE/NOI includes the combination of 1) expenses from loan interest and bank fees; 2) expenses or income from losses or gains from remeasuring the value of EUR cash bank balances in the UK, and GBP cash balances in Ireland, in USD terms; 3) income from rent of underutilized property, investment income and royalties received from licensing the Company's technology; and 4) losses or gains from dispositions of assets. Negative NOE is NOI. Net NOI in 3Q 2018 was \$79 compared to \$17 in 3Q 2017. Interest income on cash balances in the U.S. were \$60 higher in 3Q 2018 than in 3Q 2017 due to higher interest rates and cash repatriated from OUS subsidiaries. Net NOI in 9M 2018 was \$617 compared to \$66 in 9M 2017. The difference in 9M 2018 compared to 9M 2017 was largely due to a one-time \$418 gain on the sale of a storage facility in Utah that was no longer needed, and a \$32 gain on the sale of other investments, in 2Q 2018. There were no similar asset dispositions in 2017. Although in all four periods of time UTMD experienced a gain on remeasured foreign currency balances (RFCB), the gains were minimal. In 3Q 2018 the RFCB gain was \$3 compared to a gain of \$4 in 3Q 2017. In 9M 2018, the gain on RFCB was \$10 compared to a gain of \$5 in 9M 2017. Royalties received were \$18 in 3Q 2018 compared to \$23 in 3Q 2017, and \$60 in 9M 2018 compared to \$65 in 9M 2017.

## f) Income Before Income Taxes (EBT)

Consolidated EBT results from subtracting net non operating expense (NOE) from, or adding net non-operating income (NOI) to, OI. NOE includes 1) any loan interest, which there was none in 2017 or 2018, 2) bank fees and 3) losses from remeasuring the value of EUR cash bank balances in the UK, and GBP cash balances in Ireland, in USD terms, minus NOI from 1) rent of underutilized property, 2) investment income, 3) gains from remeasuring the value of EUR cash bank balances in the UK, and GBP cash balances in Ireland, in USD terms, 4) gains from the sale of assets and 5) royalties received from licensing the Company's technology. NOI is negative NOE. For clarity, the REPAT tax adjustment and 2018 GILTI tax estimated accrual do not affect EBT.

Consolidated 3Q 2018 EBT was \$4,481 (43.1% of sales) compared to \$4,696 (46.4% of sales) in 3Q 2017. The difference was almost entirely due to lower GP in 3Q 2018 than in 3Q 2017. Consolidated 9M 2018 EBT was \$15,046 (46.7% of sales) compared to \$14,503 (46.5% of sales) in 9M 2017. In 9M 2018, \$275 higher GP was offset by \$284 higher OE. Consequently, the \$542 (+3.7%) higher EBT in 9M 2018 compared to 9M 2017 was essentially due to higher NOI. There was a \$450 gain from sales of assets in 2Q 2018 that did not occur in 2017. The remeasured currency gain in 9M 2018 was \$10 compared to \$5 in 9M 2017. The remaining difference was due to higher interest income from UTMD's cash bank balances.

The EBT of UTMD's subsidiaries in Ireland and the UK results not only from trade sales but also intercompany sales. For clarity, the subsidiary profit resulting from intercompany sales is eliminated in UTMD's consolidated income results. Utah Medical Products, Ltd's (Ireland) EBT was EUR 2,499 in 9M 2018 compared to EUR 2,229 in 9M 2017. The higher 9M 2018 EBT in Ireland was due to 9% higher combined trade and intercompany sales. EBT of Femcare Group Ltd (Femcare Ltd., UK and Femcare Australia Pty Ltd) was GBP 2,841 in 9M 2018 compared to GBP 3,141 in 9M 2017. The lower Femcare Group EBT in 9M 2018 was due to the combination of 1) prior 2017 international sales from the UK converted to Ireland in 2018, and 2) 12.9% lower Australia sales (in AUD) combined with a 6.6% weaker AUD compared to the GBP. The EBT of Utah Medical Products Canada, Inc. in 9M 2018 was CAD 1,246 compared to CAD 1,497 in 9M 2017. The lower Canada EBT was due to 13.1% lower CAD sales in 9M 2018 compared to 9M 2017.

Excluding the noncash effects of depreciation, amortization of intangible assets and stock option expense, 3Q 2018 consolidated EBT excluding the noncash remeasured bank balance currency gain or loss and interest expense ("adjusted consolidated EBITDA") were \$5,206 compared to \$5,417 in 3Q 2017. The lower 3Q 2018 EBITDA was due to the lower GP in 3Q 2018. Adjusted consolidated EBITDA in 9M 2018 were \$17,328 compared to \$16,653 in 9M 2017. Based on the 9M 2018 EBITDA results, management expects 2018 EBITDA for the year as a whole will

be higher than the \$21,979 EBITDA for 2017.

g) Net Income (NI)

NI is EBT minus a provision for income taxes. NI in 3Q 2018 per GAAP was substantially affected by a \$3,230 favorable adjustment in UTMD's calculation of its "one-time" REPAT tax due under the TCJA enacted in December 2017. In addition, in 3Q 2018, UTMD added its best estimate of the new GILTI tax under the TCJA, although the IRS has yet to provide complete guidance on the calculation and the State of Utah has yet to provide any guidance. As there was no REPAT tax or GILTI tax calculation included in 3Q and 9M 2017 results, comparing period-to-period financial results net of income taxes does not provide meaningful information to stockholders, in UTMD's opinion. Therefore, in addition to the GAAP results, UTMD is providing a non-GAAP NI and EPS comparison which ignores the REPAT tax adjustment and GILTI tax accrual in 3Q 2018.

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In 3Q 2018, non-GAAP NI of \$3,582 (34.5% of sales) was 1.1% lower than the 3Q 2017 NI of \$3,622 (35.8% of sales). Non-GAAP NI in 9M 2018 of \$11,982 (37.2% of sales) was 8.7% higher than the NI of \$11,027 (35.3% of sales) in 9M 2017. The higher non-GAAP NI in 9M 2018 was due to 3.7% higher EBT in combination with a lower corporate income tax rate in the U.S. The non-GAAP consolidated income tax provision rates in 3Q 2018 and 9M 2018 were 20.1% and 20.4% respectively, compared to provision rates of 22.9% in 3Q 2017 and 24.0% in 9M 2017 (before the enactment of the TCJA which lowered the U.S. corporate income tax rate from 34% to 21%).

In 3Q 2018, GAAP NI of \$6,762 was 86.7% higher than the 3Q 2017 NI of \$3,622. GAAP NI in 9M 2018 of \$15,162 was 37.5% higher than the NI of \$11,027 in 9M 2017.

For the benefit of stockholders, UTMD believes that further discussion of its current understanding of the impact of tax law changes resulting from the TCJA might be helpful. As stockholders likely remember, 4Q 2017 results according to U.S. Generally Accepted Accounting Principles (GAAP) were affected by the recognition of an estimated "one-time" U.S. repatriation tax (REPAT tax) on foreign E&P resulting from the TCJA enacted by Congress in December 2017. UTMD's reasonable total REPAT tax estimate was \$6,288 (\$1.68 per share), including an estimated Utah State assessment of \$1,065 and a \$362 Federal REPAT tax credit for the State REPAT tax.

As more IRS information regarding the REPAT tax rules became available during 2018, and in conjunction with completing and filing its 2017 tax returns, UTMD learned that it needed to adjust its provisional assessment as it completed a "more likely than not" assessment in 3Q 2018. The results of the assessment are a total REPAT tax of \$3,058, including an estimated Utah State assessment of \$1,066 and a \$362 Federal REPAT tax credit for the State REPAT tax.

The \$3,230 (\$0.86 per share based on 3Q 2018 diluted shares) adjusted lower REPAT tax liability has been included in 3Q 2018 financial results per SEC SAB 118. The adjustment was primarily due to the application of a Foreign Tax Credit calculation per IRS rules instead of reducing the REPAT tax obligation merely by the actual foreign taxes paid, which was the basis for the initial estimate.

New "Global Intangible Low-taxed Income" (GILTI) Tax. Supposedly, the TCJA changed the U.S. tax system from one where worldwide income of U.S. corporations was taxed (when foreign subsidiary profits were repatriated) to one which only taxes income earned within the U.S. The REPAT tax was explained to be a "one-time" tax of 15.5% on liquid assets and 8% on illiquid assets resulting from cumulative foreign E&P, regardless of whether or not prior earnings had been repatriated. In actuality, Congress walked back from the concept of not taxing future foreign earnings by slipping in a new GILTI tax. This new tax apparently was aimed at corporations like Apple which had transferred intangible assets to low tax sovereignties, i.e. managed highest profits to be generated in the lowest taxed countries. Although UTMD does have OUS intangible assets acquired in the acquisition of Femcare in 2011, these assets were clearly developed in the UK, not transferred from the U.S. Also, UTMD's OUS average tax rate is about 19%, higher than the targeted low average foreign tax threshold of 13.125% over which a company like UTMD theoretically would not have to pay a GILTI tax. However, it appears now that because of the way that the tax is calculated by IRS form rules, that nearly every company with international intangible assets will end up paying GILTI income taxes going forward. If the State of Utah does not allow Foreign Tax Credits for GILTI Tax purposes, which remains to be determined, the annual State of Utah GILTI tax would be substantial, would eliminate any GILTI tax paid to the Federal government by virtue of the State tax credit allowed by the IRS and would clearly violate the premise of the one-time REPAT tax. To date, according to UTMD's tax advisors, neither the IRS nor the State of Utah has provided clear rules for calculating the GILTI tax.

Using 2017 performance as a basis, assuming the corporate tax rate is not increased again during the next eight years and UTMD's current GILTI tax estimate is reasonable, the net annual gain to stockholders between the average payments of the REPAT and GILTI taxes and the higher NI resulting from lower income tax rates on future EBT is estimated to be about \$280/ year, or about \$.07/ share using current diluted number of shares.



In UTMD's public disclosures, management attempts to explain its expectations in forward-looking statements for the benefit of its stockholders. However, management also acknowledges that financial estimates and other business projections are subject to change, and that the Company assumes no obligation to update or disclose revisions to its prior forward-looking statements.

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h) Earnings Per Share (EPS)

EPS are consolidated NI 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). Non-GAAP EPS of \$0.954 in 3Q 2018 were 1.5% lower than the 3Q 2017 EPS of \$0.969. Non-GAAP EPS of \$3.194 in 9M 2018 were 8.1% higher than the EPS of \$2.953 in 9M 2017. The 8.1% higher 9M 2018 non-GAAP EPS was due to 8.7% higher NI diluted by 0.5% higher diluted shares. Looking forward, management continues to expect to exceed its beginning of year projection for full year 2018 non-GAAP EPS.

In 3Q 2018, GAAP EPS of \$1.802 were 85.9% higher than the 3Q 2017 EPS of \$0.969. GAAP EPS in 9M 2018 of \$4.041 were 36.8% higher than the EPS of \$2.953 in 9M 2017.

Diluted shares outstanding used to calculate 3Q 2018 EPS were 3,753,111 compared to 3,738,190 in 3Q 2017.

The number of shares added as a dilution factor in 3Q 2018 was 19,876 compared to 19,300 in 3Q 2017.

Diluted shares outstanding used to calculate 9M 2018 EPS were 3,751,830 compared to 3,734,102 in 9M 2017. The number of shares added as a dilution factor in 9M 2018 was 22,235 compared to 17,647 in 9M 2017.

Outstanding shares at the end of 3Q 2018 were 3,734,165 which included 9M 2018 employee and outside director option exercises of 15,172 shares. The number of shares used for calculating earnings per share was higher than ending shares because of a time-weighted calculation of average outstanding shares plus dilution from unexercised employee and director options. The total number of outstanding unexercised employee and outside director options at September 30, 2018 was 39,168 shares at an average exercise price of \$46.24/ share, including shares awarded but not vested. This compares to 57,019 unexercised option shares outstanding at September 30, 2017 at an average exercise price of \$45.35/ share.

Exercises of employee options and dilution from a higher share price for unexercised options increased diluted shares. In 9M 2018, no new employee options were awarded. UTMD has not to date in 2018 repurchased any of its shares in the open market. The Company retains the financial ability for repurchasing its shares when they seem undervalued.

i) Return on Equity (ROE)

ROE is the portion of NI retained by UTMD to internally finance its growth, divided by the average accumulated stockholders' equity for the applicable time period. Annualized adjusted ROE in 9M 2018 (prior to the favorable REPAT Tax adjustment) was 14% compared to 14% in 9M 2017. Annualized adjusted ROE (before stockholder dividends) in 9M 2018 was 19% compared to 20% in 9M 2017. The lower adjusted ROE before dividends in 9M 2018 was due to an 11% increase in average accumulated stockholders' equity with only a 9% increase in NI. Targeting a high ROE of 20% (before dividends) remains a key financial objective for UTMD management. ROE can be increased by increasing NI, or by reducing stockholders' equity by paying cash dividends to stockholders or by repurchasing shares.

Liquidity and Capital Resources

j) Cash flows

Net cash provided by operating activities, including adjustments for depreciation and amortization and other non-cash expenses along with changes in working capital, totaled \$12,350 in 9M 2018 compared to \$12,323 in 9M 2017. The most significant differences in the two periods were the \$4,135 higher increase in net income (largely due to the REPAT Tax adjustment), offset by a \$4,258 higher decrease in 9M 2018 accrued expenses (also due to the REPAT

Tax adjustment), a \$441 benefit to cash from the sale of assets and non-cash investments, a \$392 use of cash from a smaller decrease in accounts receivable, a \$556 benefit to cash from a decrease in inventories compared to an increase in 9M 2017, and a \$459 use of cash from a decrease in accounts payable in 9M 2018 compared to an increase in 9M 2017.

Capital expenditures for property and equipment (PP&E) were \$255 in 9M 2018 compared to \$174 in 9M 2017. Depreciation of PP&E was \$577 in 9M 2018 compared to \$489 in 9M 2017.

UTMD made cash dividend payments of \$3,018 in 9M 2018 compared to \$1,969 in 9M 2017. The Company did not use cash to repurchase any of its own shares during either 9M 2018 or 9M 2017.

In 9M 2018, UTMD received \$436 and issued 12,733 shares of its stock upon the exercise of employee and director stock options, net of 2,439 shares retired upon employees trading those shares in payment of the stock option exercise price. Option exercises in 9M 2018 were at an average price of \$43.58 per share. In comparison, in 9M 2017 the Company received \$224 and issued 6,198 shares of stock on the exercise of employee and director stock options, net of 211 shares retired upon optionees trading those shares in payment of the stock option exercise price. Option exercises in 9M 2017 were at an average price of \$37.39 per share.

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Management believes that current cash balances, income from operations and effective management of working capital will provide the liquidity needed to finance internal growth plans. The Company may utilize cash not needed to support normal operations in one or a combination of the following: 1) in general, to continue to invest at an opportune time in ways that will enhance future profitability; 2) to make additional investments in new technology and/or processes; and/or 3) to acquire a product line or company that will augment revenue and EPS growth and better utilize UTMD's existing infrastructure. If there are no better strategic uses for UTMD's cash, the Company will continue to return cash to stockholders in the form of dividends and share repurchases when the stock appears undervalued.

#### k) Assets and Liabilities

September 30, 2018 total consolidated assets were \$99,151, an increase of \$6,407 from December 31, 2017. The increase was primarily due to a \$9,398 increase in cash and investments. Other significant changes in assets included a \$852 increase in consolidated net trade receivables, a \$323 decrease in consolidated inventories and a \$2,413 decrease in net intangible assets. UTMD's Ireland subsidiary EUR-denominated assets and liabilities on September 30, 2018 were translated into USD at an FX rate 3.3% lower (weaker EUR relative to the USD) than the FX rate at the end of 2017. UTMD's UK subsidiary GBP-denominated assets were translated into USD at an FX rate 3.4% lower (weaker GBP) than the FX rate at the end of 2017. UTMD's Australia subsidiary AUD-denominated assets were translated into USD at an FX rate 7.4% lower (weaker AUD) than the FX rate at the end of 2017. UTMD's Canada subsidiary CAD-denominated assets were translated into USD at an FX rate 3.1% lower (weaker CAD) than the FX rate at the end of 2017. The net book value of consolidated property, plant and equipment decreased \$1,047 at September 30, 2018 from the end of 2017 due to period-ending changed FX rates, \$255 in new asset purchases and \$577 in depreciation.

Working capital (current assets minus current liabilities) was \$54,285 at September 30, 2018 compared to \$43,909 at December 31, 2017. A current asset increase of \$9,867 was dominated by the \$9,398 increase in cash and investments. A current liabilities decrease of \$510 was largely due to a \$418 lower current portion of REPAT tax liability, since UTMD essentially paid two years' of adjusted REPAT tax liability in 2018 before it understood it had originally estimated its REPAT tax liability too high. UTMD management believes that its working capital remains sufficient to meet normal operating needs, new capital expenditures and projected cash dividend payments to stockholders.

September 30, 2018 intangible assets (goodwill plus other intangible assets) decreased \$2,413 from the end of 2017. The decrease was due to the 3.4% lower FX rate for GBP Femcare intangibles as of September 30, 2018 compared to year-end 2017, plus \$1,617 9M 2018 amortization of Femcare IIA. At September 30, 2018, net intangible assets including goodwill declined to 30% of total consolidated assets compared to 34% at year-end 2017, and 36% at September 30, 2017.

The deferred tax liability balance for Femcare IIA (\$9,084 on the date of the acquisition) was \$2,698 at September 30, 2018, compared to \$3,102 at December 31, 2017, and \$3,175 at September 30, 2017. Reduction of the deferred tax liability occurs as the book/tax difference of IIA amortization is eliminated over the remaining useful life of the Femcare IIA. UTMD's total debt ratio (total liabilities/ total assets) as of September 30, 2018 was 10%, including the remaining \$2,526 REPAT tax liability payable over another seven years. The total debt ratio as of December 31, 2017 was 16%, and as of September 30, 2017 (before enactment of the TCJA) was 10%.

#### l) Management's Outlook

As outlined in its December 31, 2017 SEC 10-K report, UTMD's plan for 2018 is to

1)

- continue to exploit distribution and manufacturing synergies by further integrating capabilities and resources in its multinational operations;
- 2) introduce additional products helpful to clinicians through internal new product development;
  - 3) continue achieving excellent overall financial operating performance;
  - 4) utilize positive cash generation to continue cash dividends to stockholders and make open market share repurchases if/when the UTMD share price seems undervalued; and
  - 5) be vigilant for accretive acquisition opportunities which may be increasingly brought about by difficult burdens on small, innovative companies.

In general, the Company continues to effectively execute its plan as outlined above. Based on results of 9M 2018, management expects to exceed the financial objectives for the full year of 2018 as stated in the Form SEC 10-K at the beginning of the year.

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m) Accounting Policy Changes

On January 1, 2018 UTMD adopted ASU 2014-09, Revenue from Contracts with Customers. Refer to Note 2 for further information.

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 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 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 3. Quantitative and Qualitative Disclosures about Market Risk

UTMD has manufacturing and trading operations, including related assets, in the U.S. denominated in the U.S. Dollar (USD), in Ireland denominated in the Euro (EUR), in England denominated in the British Pound (GBP), in Australia denominated in the Australia Dollar (AUD), and, starting in 2017, in Canada denominated in the Canadian Dollar (CAD). The currencies are subject to exchange rate fluctuations that are beyond the control of UTMD. The exchange rates were .8601, .8319 and .8465 EUR per USD as of September 30, 2018, December 31, 2017 and September 30, 2017, respectively. Exchange rates were .7463, .7395 and .7659 GBP per USD as of September 30, 2018, December 31, 2017 and September 30, 2017, respectively. Exchange rates were 1.3814, 1.2796 and 1.2756 AUD per USD on September 30, 2018, December 31, 2017, and September 30, 2017, respectively. Exchange rates were 1.2921, 1.2519, and 1.2513 CAD per USD on September 30, 2018, December 31, 2017, and September 30, 2017, respectively. UTMD manages its foreign currency risk without separate hedging transactions by either invoicing customers in the local currency where costs of production were incurred, by converting currencies as transactions occur, and by optimizing global account structures through liquidity management accounts.

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, 2018. Based on this evaluation, the Chief Executive Officer and Principal Financial Officer concluded that, as of September 30, 2018, 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 nine months ended September 30, 2018, 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 the outcome of which is expected to be material to financial results.

### 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, 2017, 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.

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") added a substantial excise tax (MDET) in 2013-2015 that increased administrative costs and has led to decreased revenues in the U.S.:

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 larger medical device companies can afford. Fortunately, the U.S. Congress has suspended the MDET for years of 2016 through 2019. To the extent that the Acts will in the future continue to place additional burdens on small medical device companies in the form of the excise tax on medical device sales, additional oversight of marketing and sales activities and new reporting requirements, the result is likely to continue to be negative for UTMD's ability to effectively compete and support continued investments in new product development and marketing of specialty devices in the U.S.

Increasing regulatory burdens including premarketing approval delays may result in significant loss of revenue, unpredictable costs and loss of management focus on helping the Company proactively conform with requirements and thrive:

The Company's experience in 2001-2005, when the FDA improperly 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, including new product development and routine quality control management activities, and a tremendous psychological and emotional toll on dedicated and diligent 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 unconstitutional result is that companies, including UTMD, are considered guilty prior to proving their innocence.

Premarketing submission administrative burdens and substantial increases in "user fees" increase product development costs and result in delays to revenues from new or improved devices. It recently took two and a half years to gain FDA approval of the use of a clearly safer single use Filshie Clip applicator, which had been in use for over seven years OUS, in lieu of a reused applicator approved in the U.S. since 1996, made of substantially equivalent materials for the same intended use applying the same implanted clip.

The growth of Group Purchasing Organizations (GPOs) 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 undifferentiated 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 or understand 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.

The Company's business strategy may not be successful in the future:

As the level of complexity and uncertainty in the medical device industry increases, evidenced, for example, by the unpredictable regulatory environment, the Company's views of the future and product/ market strategy may not yield financial results consistent with the past.

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

An aging population is 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 certain clinical users because of the existence of long term supply agreements for preexisting products, particularly from competitors which offer hospitals a broader range of products and services. 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 party distributors in some markets may result in less predictable revenues:

UTMD's 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. In some countries, notably China, Pakistan and India not subject to similarly rigorous standards, by copying, a distributor of UTMD's products may eventually become a competitor with a cheaper but lower quality version of UTMD's devices.

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. An 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.

Fluctuations in foreign currencies relative to the USD can result in significant differences in period to period financial results:

Since a significant portion of UTMD's sales are invoiced in foreign currencies and consolidated financial results are reported in USD terms, a stronger USD can have negative revenue effects. Conversely, a weaker USD would increase foreign subsidiary operating costs in USD terms. For the portion of sales to foreign entities made in fixed USD terms, a stronger USD makes the devices more expensive and weakens demand. For the portion invoiced in a foreign currency, not only USD-denominated sales are reduced, but also gross profits may be reduced because finished distributed products and/or U.S. made raw materials and components are likely being purchased in fixed USD.

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

UTMD did not purchase any of its own securities during 9M 2018.

Item 6. Exhibits

| Exhibit # | SEC 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 |
| 5         | 101.ins         | XBRL Instance  |
| 6         | 101.sch         | XBRL Schema  |
| 7         | 101.cal         | XBRL Calculation   |
| 8         | 101.def         | XBRL Definition  |
| 9         | 101.lab         | XBRL Label   |
| 10        | 101.pre         | XBRL Presentation  |

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: 11/7/18 By: /s/ Kevin L. Cornwell  
Kevin L. Cornwell  
CEO

Date: 11/7/18 By: /s/ Brian L. Koopman  
Brian L. Koopman  
Principal Financial Officer

