

UTAH MEDICAL PRODUCTS INC
Form 10-Q
November 07, 2011

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: Commission File
September 30, 2011 No. 001-12575

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of November 4, 2011:
3,639,000.

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

PART I - FINANCIAL INFORMATION		PAGE
Item 1.	Financial Statements	
	Consolidated Condensed Balance Sheets as of September 30, 2011 and December 31, 2010	1
	Consolidated Condensed Statements of Income for the three and nine months ended September 30, 2011 and September 30, 2010	2
	Consolidated Condensed Statements of Cash Flows for the nine months ended September 30, 2011 and September 30, 2010	3
	Notes to Consolidated Condensed Financial Statements	4
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	7
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	13
Item 4.	Controls and Procedures	14
PART II – OTHER INFORMATION		
Item 1.	Legal Proceedings	15
Item 1A.	Risk Factors	15
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	16
Item 6.	Exhibits	17
SIGNATURES		17

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

UTAH MEDICAL PRODUCTS, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS AS OF
SEPTEMBER 30, 2011 AND DECEMBER 31, 2010
(in thousands)

	(unaudited) SEPTEMBER 30, 2011	(audited) DECEMBER 31, 2010
ASSETS		
Current assets:		
Cash	\$ 7,040	\$ 3,818
Investments, available-for-sale	58	14,718
Accounts & other receivables - net	5,027	3,164
Inventories	4,963	3,097
Other current assets	655	346
Total current assets	17,743	25,142
Property and equipment - net	9,065	8,750
Goodwill	15,970	7,191
Other intangible assets	39,665	2,165
Other intangible assets - accumulated amortization	(3,385)	(2,010)
Other intangible assets - net	36,281	155
TOTAL	\$ 79,059	\$ 41,238
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,701	\$ 398
Accrued expenses	3,323	1,290
Current portion of notes payable	5,470	215
Total current liabilities	10,494	1,903
Notes payable	18,536	909
Deferred tax liability - intangible assets	8,425	-
Other long term liabilities	460	-
Deferred income taxes	777	634
Total liabilities	38,692	3,446
Stockholders' equity:		
Preferred stock - \$.01 par value; authorized - 5,000 shares; no shares issued or outstanding	36	36

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Common stock - \$.01 par value; authorized - 50,000 shares; issued - September 30, 2011, 3,638 shares and December 31, 2010, 3,619 shares		
Accumulated other comprehensive loss	(2,241)	(1,275)
Additional paid-in capital	651	107
Retained earnings	41,920	38,924
Total stockholders' equity	40,367	37,792
TOTAL	\$ 79,059	\$ 41,238

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, 2011 AND SEPTEMBER 30, 2010
(in thousands, except per share amounts - unaudited)

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	SEPTEMBER 30, 2011	2010	SEPTEMBER 30, 2011	2010
Sales, net	\$ 10,784	\$ 6,201	\$ 27,954	\$ 18,912
Cost of goods sold	4,266	2,865	11,466	8,987
Gross profit	6,518	3,336	16,487	9,925
Operating expense				
Selling, general and administrative	2,842	977	7,172	2,893
Research & development	138	101	386	292
Total	2,979	1,078	7,558	3,184
Operating income	3,539	2,257	8,929	6,741
Other income (expense)	(265)	31	(561)	66
Income before provision for income taxes	3,274	2,289	8,368	6,807
Provision for income taxes	1,037	777	2,812	2,302
Net income	\$ 2,237	\$ 1,512	\$ 5,556	\$ 4,505
Earnings per common share (basic)	\$ 0.62	\$ 0.42	\$ 1.53	\$ 1.24
Earnings per common share (diluted)	\$ 0.61	\$ 0.42	\$ 1.53	\$ 1.24
Shares outstanding - basic	3,636	3,616	3,629	3,622
Shares outstanding - diluted	3,644	3,631	3,642	3,643

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, 2011 AND SEPTEMBER 30, 2010
(in thousands - unaudited)

	SEPTEMBER 30,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$5,556	\$4,505
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	536	416
Amortization	1,424	33
(Gain) loss on investments	(6)	(39)
Provision for (recovery of) losses on accounts receivable	10	4
Deferred income taxes	(374)	-
(Gain) loss on disposal of assets	-	0
Stock-based compensation expense	73	64
Changes in operating assets and liabilities:		
Accounts receivable - trade	287	303
Accrued interest and other receivables	(26)	(45)
Inventories	(579)	122
Prepaid expenses and other current assets	163	48
Accounts payable	(439)	21
Accrued expenses	955	55
Deferred revenue	(52)	-
Other liability	330	-
Total adjustments	2,303	982
Net cash provided by operating activities	7,859	5,487
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures for:		
Property and equipment	(196)	(1,418)
Intangible assets	(8)	(2)
Purchases of investments	(500)	(1,200)
Proceeds from the sale of investments	15,155	2,639
Net cash paid in acquisition	(41,084)	-
Net cash provided by (used in) investing activities	(26,633)	19
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock - options	442	380
Common stock purchased and retired	-	(439)
Tax benefit attributable to exercise of stock options	30	30
Proceeds from notes payable	26,934	-
Repayments of note payable	(3,682)	(302)
Payment of dividends	(1,705)	(1,707)
Net cash provided by (used in) financing activities	22,019	(2,037)
Effect of exchange rate changes on cash	(23)	(28)

NET INCREASE (DECREASE) IN CASH	3,222	3,441
CASH AT BEGINNING OF PERIOD	3,818	410
CASH AT END OF PERIOD	\$7,040	\$3,851
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for income taxes	\$2,015	\$2,055
Cash paid during the period for interest	636	19

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, 2010. 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, 2011 and December 31, 2010 consisted of the following:

	September 30, 2011	December 31, 2010
Finished goods	\$ 2,465	\$ 1,008
Work-in-process	936	757
Raw materials	1,562	1,332
Total	\$ 4,963	\$ 3,097

(3) Stock-Based Compensation. At September 30, 2011, 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, 2011 and 2010, the Company recognized \$24 and \$19, respectively, in stock-based compensation cost. In the nine months ended September 30, 2011 and 2010, the Company recognized \$73 and \$64, respectively, in stock-based compensation cost.

(4) Comprehensive Income. Comprehensive income for the third quarter (3Q) and first nine months (9M) of 2011 was \$1,554 and \$4,964, net of taxes, respectively. The components used to calculate comprehensive income were foreign currency translation adjustments of (\$668) and (\$585) in 3Q and 9M 2011, respectively, and unrealized holding gains (losses) of (\$15) and (\$7) in 3Q and 9M 2011, 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. Femcare is best known for its leading global brand the Filshie Clip System – a female surgical contraception device (tubal ligation). UTMD expects the business combination will provide diversification, expansion and integration benefits that each company separately did not have the opportunity to achieve. UTMD anticipates that the acquisition will be accretive to financial performance in 2011 and beyond.

While UTMD used its best estimates and assumptions as a part of the \$41 million purchase price allocation process to accurately value assets acquired and liabilities assumed at the acquisition date, its estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, UTMD will record adjustments to the assets acquired and liabilities assumed with the corresponding offset to intangible assets. Upon the conclusion of the measurement period or final determination of the values of assets or liabilities assumed, whichever comes first, any subsequent adjustments will be recorded to consolidated statements of operations. UTMD believes that the accounting of fixed assets is complete, but liabilities and intangible asset balances remain uncertain. As of September 30, 2011, no adjustments have been made in the purchase price set on the closing date, or in the initial valuation of assets and liabilities and allocation of intangible assets.

A two-year \$3.2 million escrow was set aside from the purchase price to back the warranties and representations of the sellers. The purchase price allocation is currently as follows:

Assets Acquired	
Accounts receivable	\$ 2,176
Prepaid expenses	344
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	9,084
Total assets acquired	52,325
Liabilities Assumed	
Accounts payable	1,107
Accrued expenses	1,049
Deferred tax liability	9,084
Total liabilities assumed	11,241
Net assets acquired	\$ 41,084

With respect to the assets acquired from Femcare, UTMD will amortize the patents and non-compete agreements over 10 and 5 years, respectively. The remaining \$38,537 in identifiable intangibles will be amortized over 15 years. The \$9,084 in deferred tax liability and goodwill results from the difference between the book basis and tax basis of the accumulated amortization of identifiable intangible assets. The deferred tax liability will decline to zero over 15 years as the tax basis of the intangibles declines. The goodwill will not be amortized, but will be written down if and when the value becomes impaired.

The Company incurred \$8 towards acquisition related expenses, all of which are categorized under General and Administrative expenses in the Consolidated Condensed Statements of Income for the three months ended September 30, 2011, and \$293 for the nine months ended September 30, 2011.

(6) Notes payable. On March 17, 2011, UTMD obtained a \$14,000 loan from JPMorgan Chase Bank, N.A. (Chase), to help finance the purchase price of Femcare. On September 23, 2011, certain loan covenants were modified and clarified. 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 1.05 to 1.00 or better, f) maintain its Tangible Net Worth (TNW) above negative \$20 million, plus 50% of cumulative net income after April 1, 2011, and g) maintain its Leverage Ratio at 2.75 to 1.00 or less. Based on the September 30, 2011 Leverage Ratio, the bank's margin is now 2.00%. UTMD is in compliance with all of the loan financial covenants at September 30, 2011.

On March 18, 2011, Femcare obtained an £8,000 (\$12,934) loan from JP Morgan Chase, London, 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.

(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, 2011. Femcare had an established reserve at the time of acquisition by UTMD, which is shown as an increase in the reserve in the table below. The following table summarizes changes to UTMD's warranty reserve during 9M 2011:

Beginning Balance, January 1, 2011	\$ 0
Changes in Warranty Reserve during 9M 2011:	
Aggregate reductions for warranty repairs	-
Aggregate changes for warranties issued during reporting period	-
Aggregate changes in reserve related to preexisting warranties	32
Ending Balance, September 30, 2011	\$ 32

(8) Investments. As of September 30, 2011, the Company's investments are in Citigroup (C) and General Electric (GE). 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 2011	3Q 2010
Balance, beginning of period	\$ (181)	\$ (224)
Realized loss from securities included in beginning balance	-	30
Gross unrealized holding gains (losses), in equity securities	(25)	6
Deferred income taxes on unrealized holding loss	10	(14)
Balance, end of period	\$ (196)	\$ (202)

(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, 2011:

Description	Total Fair Value at 9/30/2011	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)

Common stock	\$	58	\$	58	\$	0	\$	0
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(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, 2010 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

On March 18, 2011, UTMD acquired Femcare (see note 5). The performance of Femcare after March 17 is included in 2011 financial results.

A summary of income statement measures for third quarter (3Q) and nine months (9M) 2011 compared to the same periods of 2010 follow:

	3Q 2011	3Q 2010	change	9M 2011	9M 2010	change
Net Sales	\$10,784	\$6,201	73.9%	\$27,954	\$18,912	47.8%
Gross Profit	6,518	3,336	95.4%	16,487	9,925	66.1%
Operating Income	3,539	2,257	56.8%	8,929	6,741	32.5%
Income Before Tax	3,274	2,289	43.1%	8,368	6,807	22.9%
Net Income	2,237	1,512				