

UTAH MEDICAL PRODUCTS INC  
Form 10-K  
March 12, 2014

---

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2013

Commission File Number: 001-12575

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

Utah  
(State or other jurisdiction of  
incorporation or organization)

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

7043 S 300 W, Midvale Utah  
(Address of principal executive offices)

84047  
(Zip Code)

Registrant's telephone number, including area code: Telephone (801) 566-1200  
Facsimile (801) 566-7305

Securities registered pursuant to Section 12(b) of the Act:

Title of each class  
Common Stock, \$.01 Par Value  
Preferred Stock Purchase Rights

Name of each exchange on which registered  
The NASDAQ Global Market

Securities registered pursuant to Section 12(g) of the Act:  
(Title of Class)  
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.  
Yes o No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 x No o

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 by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter. As of June 30, 2013, the aggregate market value of the voting and nonvoting common equity held by nonaffiliates of the registrant was \$177,627,000.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. As of March 11, 2014, common shares outstanding were 3,753,000.

**DOCUMENTS INCORPORATED BY REFERENCE.** The Company's definitive proxy statement for the Annual Meeting of Shareholders is incorporated by reference into Part III, Item 10, 11, 12, 13 and 14 of this Form 10-K.

---

## INDEX TO FORM 10-K

| PART I     |         | PAGE   |    |
|------------|---------|--|----|
|            | Item 1  | Business   | 1  |
|            | Item 1A | Risk Factors   | 13 |
|            | Item 1B | Unresolved Staff Comments  | 14 |
|            | Item 2  | Properties   | 14 |
|            | Item 3  | Legal Proceedings  | 15 |
|            | Item 4  | Reserved   | 15 |
| <br>       |         |  |    |
| PART II    |         |  |    |
|            | Item 5  | Market for Registrant's Common Equity, Related<br>Stockholder Matters and Issuer Purchases of<br>Equity Securities | 16 |
|            | Item 6  | Selected Financial Data  | 17 |
|            | Item 7  | Management's Discussion and Analysis of<br>Financial Condition and Results of Operations                           | 18 |
|            | Item 7A | Quantitative and Qualitative Disclosures About<br>Market Risk  | 30 |
|            | Item 8  | Financial Statements and Supplementary Data  | 31 |
|            | Item 9  | Changes in and Disagreements With Accountants<br>on Accounting and Financial Disclosure                            | 52 |
|            | Item 9A | Controls and Procedures  | 52 |
|            | Item 9B | Other Information  | 53 |
| <br>       |         |  |    |
| PART III   |         |  |    |
|            | Item 10 | Directors, Executive Officers and Corporate<br>Governance  | 54 |
|            | Item 11 | Executive Compensation   | 54 |
|            | Item 12 | Security Ownership of Certain Beneficial Owners<br>and Management and Related Stockholder Matters                  | 54 |
|            | Item 13 | Certain Relationships and Related Transactions,<br>and Director Independence                                       | 55 |
|            | Item 14 | Principal Accounting Fees and Services   | 55 |
| <br>       |         |  |    |
| PART IV    |         |  |    |
|            | Item 15 | Exhibits, Financial Statement Schedules  | 56 |
| <br>       |         |  |    |
| SIGNATURES |         |  | 58 |

PART I

ITEM 1 – BUSINESS

Currency amounts throughout this report are in thousands except per-share amounts and where noted.

Utah Medical Products, Inc. (“UTMD” or “the Company”) is in the business of producing high quality cost-effective medical devices that are predominantly proprietary, disposable and for hospital use. Success depends on 1) recognizing needs of clinicians and patients, 2) rapidly designing or acquiring economical solutions that gain premarketing regulatory concurrence, 3) reliably producing products that meet those clinical needs, and then 4) selling through

- a) UTMD's own direct channels into markets where the Company enjoys an established reputation and has a critical mass of sales and support resources, or
- b) relationships with other medical companies that have the resources to effectively distribute and support the Company's products.

UTMD's success in providing reliable solutions comes from its proven ability to integrate a number of engineering and technical disciplines in electronics, software, mechanical packaging, instrumentation, plastics processing and materials. The resulting proprietary products represent significant incremental improvements in patient safety, clinical outcomes and/or total cost over preexisting clinical tools. UTMD's experience is that, in the case of labor-saving devices, the improvement in cost-effectiveness of clinical procedures also leads to an improvement in overall healthcare including lower risk of complications. UTMD markets a broad range of medical devices used in critical care areas, especially the neonatal intensive care unit (NICU), the labor and delivery (L&D) department and the women's health center in hospitals, as well as products sold to outpatient clinics and physician's offices.

The opportunity to apply solutions to recognized needs results from an excellent core of practicing clinicians who introduce ideas to the Company, and key employees who are both clinical applications savvy and development engineering adept.

UTMD's products are sold directly to end users in the U.S. domestic market by the Company's own direct sales representatives and independent manufacturers' representatives. In addition, some of UTMD's products are sold through specialty distributors, national hospital distribution companies and other medical device manufacturers. Internationally, products are sold directly to end users in the UK and Australia, and through other medical device companies and through independent medical products distributors in many other countries. UTMD has representation in all major developed countries as well as many underdeveloped countries through several hundred distributors, 142 of which purchased at least five thousand dollars in UTMD medical devices during 2013.

UTMD was formed as a Utah corporation in 1978. UTMD sold stock to the public one time in 1982 for \$1,750 (before offering costs of \$321). Since 1992, UTMD has returned \$112,680 in the form of share repurchases, and an additional \$34,459 in the form of cash dividends, to its public stockholders.

Utah Medical Products Ltd., a wholly-owned subsidiary with manufacturing located in Ireland, was formed in 1995 to better serve UTMD's international customers. In 1997, UTMD purchased Columbia Medical, Inc. (CMI), a Redmond, Oregon company specializing in silicone injection molding, assembly and marketing vacuum-assisted obstetrical delivery systems. In 1998, UTMD acquired the neonatal product line of Gesco International, a subsidiary of Bard Access Systems and C.R. Bard, Inc. In 2004, UTMD acquired Abcorp, Inc., its supplier of fetal monitoring belts. In 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 gyn brand, the Filshie Clip System, a female surgical contraception device (tubal ligation). The addition of Femcare provides product and distribution channel

diversification and expansion. Sales of the products, or derivatives of the products, from the four acquisitions noted above, comprised 63% of UTMD's consolidated 2013 sales.

UTMD's corporate headquarters are located at 7043 South 300 West, Midvale, Utah 84047 USA. The corporate office telephone number is 01 (801) 566-1200. Ireland operations are located at Athlone Business and Technology Park, Athlone, County Westmeath, Ireland. The Ireland telephone number is 353 (90) 647-3932. United Kingdom operations are located at Stuart Court, Spursholt Place, Salisbury Road, Romsey, Hampshire SO51 6DJ, UK. The UK phone number is 44 (179) 452-5100. Australia operations are located at Unit 12, 5 Gladstone Road, Castle Hill, NSW 2154, Australia. The Australia phone number is 612 9869 7544.

## PRODUCTS

More complete descriptions including part numbers and pictures of UTMD's devices can be conveniently obtained at [www.utahmed.com](http://www.utahmed.com) and [www.femcare-nikomed.co.uk](http://www.femcare-nikomed.co.uk).

### Labor and Delivery/ Obstetrics:

#### Fetal Monitoring Accessories.

The majority of births are considered "higher risk" due to lack of prenatal care, or use of anesthesia, among other factors. In many of these births, labor may become complicated and does not progress normally. The obstetrician or perinatologist must assess progression of labor to be able to intervene with drug therapy, infuse a solution to augment amniotic fluid, or ultimately if necessary, perform an operative procedure, and then be prepared for complications immediately following childbirth.

To assist the physician in controlling the effectiveness of administration of oxytocin and monitoring effects of amnioinfusion, contraction intensities, uterine resting tones and peak contraction pressures are closely monitored through the use of an invasive intrauterine pressure catheter system. In addition, to help identify the possible onset of fetal hypoxia, correlation of the changes in fetal heart rate (FHR) relative to the frequency and duration of contractions are often electronically monitored. UTMD's intrauterine pressure (IUP) catheters provide for clinician choices from a traditional fluid-filled system to INTRAN® PLUS, for over twenty years the most widely accepted transducer-tipped system. In addition, adjunct FHR electrodes, leg plates, toco belts and chart paper are provided by UTMD to complete a package of fetal monitoring supplies. UTMD's IUP catheters include:

IUP-075 and UTMD's other custom fluid-filled clear catheter kits utilize a saline-filled catheter that is placed within the uterine cavity, connected to a separate external reusable or disposable transducer. This product package, utilizing double lumen catheters, was the traditional mode of intrauterine monitoring prior to the introduction of INTRAN. An intrauterine pressure change is transmitted through the fluid column to the external pressure transducer.

Introduced in 1987, INTRAN was the first disposable intrauterine pressure catheter that placed the pressure transducer at the pressure source within the uterine cavity. This design eliminated the complicated setup of fluid-filled systems and provided more accurate pressure waveforms. INTRAN I was discontinued in 1995 in favor of the more widely preferred INTRAN PLUS, also covered by UTMD's original INTRAN patent.

INTRAN PLUS was introduced in 1991. The INTRAN PLUS catheter combines the transducer tip concept of INTRAN I with a refined tip design, a zeroing switch that allows the clinician to reset the reference of the monitor, and a dedicated amnio lumen which provides access to the amniotic fluid environment which may be helpful in the diagnosis and intervention of certain fetal conditions. In 1996, a viewport enhancement which allows physicians to observe amniotic fluid in a closed system was added to INTRAN PLUS. In 1997, UTMD introduced several variations to allow user preferences in tip size, zero switch location and amniotic fluid visualization.

UTMD markets tocodynamometer belts, disposable electrodes, catheters and accessories as outlined above, but does not currently market electronic monitors, the capital equipment that process the electrical signals. In addition to products currently offered, UTMD intends to continue to investigate and introduce tools that enhance fetal monitoring techniques.

### Vacuum-Assisted Delivery Systems (VAD).

UTMD's VAD Systems include CMI® patented soft silicone bell-shaped birthing cups and patented hand-held vacuum pumps which UTMD believes are the safest products available for use in vacuum-assisted operative deliveries. UTMD's patented soft silicone cup is a bell-shaped cup design that should be preferred for fetal well-being in low or outlet fetal stations with occiput anterior presentations, which represent more than 90% of the cases where VAD is indicated. Operative vaginal deliveries using forceps or vacuum-assisted delivery systems provide

knowledgeable physicians with a trial vaginal operative delivery prior to a more invasive C-section intervention. Although there are risks associated with vaginal operative deliveries which may currently represent 3-5% of all U.S. hospital births, the procedures are generally regarded as safer long term for the mother, and at least as safe for the fetus, as abdominal (Cesarean) delivery in comparable clinical situations. UTMD estimates that the VAD operative approach is used for about 3-5% of all U.S. births, with forceps as the alternative. UTMD's patented bell-shaped soft silicone TENDER TOUCH® cups enjoy a low reported complication rate compared to other vacuum cup designs, as evidenced by the FDA Medical Device Reporting System (MAUDE) which lists serious injuries reported by hospitals using specific brand names of products.

#### Other Obstetrical Tools.

AROM-COT™ is a finger cover with a patented prong design to rupture maternal membranes with less patient pain and anxiety. MUC-X is an aspiration device used immediately after birth to clear neonatal respiratory passages and reduce exposure to potential infections. CORDGUARD® is a product which unifies the multiple steps of clamping the neonate's cord close to the umbilicus, severing the cord without splattering blood, drawing a clean cord blood sample, and assisting in the removal of the placenta. CORDGUARD's sharpless, closed system reduces the risk of exposure to potentially infected blood, and consequently reduces the high cost of exposure treatment under OSHA and CDC guidelines. In addition, CORDGUARD facilitates obtaining neonatal blood that is otherwise hard to obtain safely and cleanly. BT-Cath® is a uterine balloon tamponade catheter for controlling severe postpartum hemorrhage. Its benefits include the ease of rapid deployment and ability to monitor further bleeding after the tamponade has been placed. Abcorp toco belts and straps for fetal monitoring by an external tocodynamometer are provided in latex-free form in several configurations.

#### Neonatal Intensive Care:

##### DISPOSA-HOOD™

The DISPOSA-HOOD is an infant respiratory hood that is used in the NICU to administer oxygen to neonates and flush CO<sub>2</sub> (carbon dioxide) while maintaining a neutral thermal environment (NTE) critical to proper physiologic responses. The DISPOSA-HOOD, placed over the infant's head, incorporates a round diffusor connection specifically designed to disperse the incoming gases along the inner surfaces of the hood, rather than allowing them to blow directly on the infant's head. The design allows more precise FIO<sub>2</sub> (fractional inspired oxygen) control, minimizes convective heat loss from the head and provides optimum flows for elimination of CO<sub>2</sub> by ventilation.

DISPOSA-HOOD, in contrast to an incubator, allows for excellent access to and visualization of the underdeveloped infant. Because it is a disposable product, it also prevents cross-contamination. Less invasive and constraining than nasal cannulae, Disposa-Hood avoids potential damage to fragile premature neonatal nasal/orotracheal tissues and maintains a NTE.

##### DELTRAN® PLUS

UTMD's DELTRAN blood pressure monitoring system has been adapted specifically for use in the NICU. The streamlined version eliminates needles used for blood sampling, avoids the loss of scarce neonatal blood volume and provides a closed system that reduces the risk of infection. The system features excellent visualization of clearing volume, and one-handed use. In 2013, UTMD continued its customization of Deltran kits for specific hospital applications.

##### GESCO®

In the third quarter of 1998, UTMD acquired the neonatal product line of Gesco International. GESCO, best known for optimally biocompatible silicone catheters, gained an early distinctive reputation for its focus on the special developmental needs of tiny, critically-ill babies.

A class of catheters called umbilical vessel catheters (UVCs) are specially designed for administering vital medications and fluids immediately following birth through the infant's umbilical vessel into the inferior vena cava. Because of the neonate's small size and lack of vascular development, there is no better access to vital organs. The catheters are also called umbilical artery catheters (UACs) when placed in one of the umbilical arteries to measure blood pressure or monitor metabolic processes through blood analysis. In developing its UMBILI-CATH™ product line, Gesco pioneered the use of soft, biocompatible silicone catheters, helping to reduce the number of insertions required as well as other complications associated with invasive applications. UTMD has expanded the UVC product line to include catheters made from a proprietary thermosensitive polyurethane (Tecoflex®) that offers many of the flexibility and biocompatibility advantages of silicone after insertion, with the greater rigidity of polyurethane preferred by many clinicians for ease of insertion. In addition, GESCO provides a convenient catheterization procedure tray of implements and supplies necessary to place UVC catheters, as well as perform other similar procedures.



The primary distinction of GESCO products is that they were developed with the special needs of the neonate in mind, not just cut-down or smaller versions of adult devices. For example, in the case of invasive catheters, the introducer, the soft rounded distal tip, mode of securing to the patient after insertion to avoid migration, luer-locking hub with minimal dead space, number of lumens, catheter radiopaque striping for visualization, variations in catheter lengths and diameters and special packaging are all features specially designed for neonates. UTMD continues to modify product features to incorporate current neonatal nurse practitioner preferences.

The soft, biocompatible silicone catheter concept had important advantages in other applications including peripherally inserted central venous catheters (PICC lines), enteral feeding tubes, urinary drainage catheters, and chest drainage tubes. GESCO developed and marketed initial versions of all of these neonatal products. In order to keep pace with the trend of caring for smaller babies, UTMD has added smaller diameter versions of its URI-CATH® and NUTRI-CATH® products. At the request of customers who prefer a stiffer catheter for insertion, UTMD added a Tecoflex polyurethane oral-connection only Nutri-Cath series in 2009.

In 2000, UTMD gained FDA premarketing clearance of a PICC family of products specifically designed to minimize trauma to the critically ill neonate, named PICC-NATE®. The PICC-Nate product line was designed with the input of experienced neonatal nurse practitioners for use as a long-term indwelling catheter system for single-use, therapeutic central venous infusion of drug solutions, blood products or other fluids and for blood sampling. The soft, strong silicone PICC-Nate comes in two diameter sizes and two hub configurations. In early 2003, UTMD added a Tecoflex polyurethane version that offers many of the flexibility and biocompatibility advantages of silicone after insertion, with the greater rigidity of polyurethane preferred by many clinicians for insertion.

In 2006, UTMD developed a unique enteral feeding-only extension set named NUTRI-LOK® that addresses important safety risks in the NICU – inadvertent connections with IV lines and inadvertent disconnections of components of the system spanning the dispensing container through the infusion catheter. NUTRI-LOK was launched to the market in January 2007. In October 2007, UTMD added dispensing syringes with interlocking connectors to its NUTRI-CATH/NUTRI-LOK family of enteral feeding devices. In 2008, UTMD expanded the NUTRI-LOK system with specialty extension sets for GI tubes and for continuous connection to a fluid pump. In 2009, UTMD added a Kangaroo bag for larger feeds along with other NUTRI-LOK accessories. In 2011, UTMD added variations in adapters and extension sets used with NUTRI-CATH.

In 2006, UTMD completed the replacement of all DEHP plasticizer PVC materials in its Gesco product line that may come in contact with neonatal patients, addressing another evolving safety concern related specifically to the possible maldevelopment of male neonates.

Other GESCO specialty products include a disposable peritoneal dialysis (PD) set that is a pre-assembled, sterile, closed system, called DIALY-NATE®. PD is an ideal method to aid compromised renal function in a neonate because critically-ill pediatric patients may not have sufficient blood volume to support hemodialysis. DIALY-NATE is provided in a form that allows timely PD implementation. In 2008, UTMD added a DIALY-NATE version that can be used with a variety of fluid warming systems. In 2010, UTMD introduced a bifurcated system that allows for higher volume manual PD applications. In 2013, additional custom configurations were added to satisfy specific clinical preferences.

Other specialty NICU devices include a patented silicone oral protection device used to prevent palatal soft tissue injury by orotracheal tubes, called PALA-NATE®; a pre-assembled, closed urinary drainage system, called URI-CATH®, which reduces risk of infection and valuable nursing time, and a lumbar sampling kit with a tiny, specially-beveled needle for obtaining cerebral spinal fluid samples, called MYELO-NATE®.

GESCO's first patented product, HEMO-NATE®, is a disposable filter designed to remove microaggregates from stored blood prior to transfusion into a neonate where any deficiency can have an overwhelmingly negative impact on a neonate's chances for survival, given an under-developed vasculature and small total blood volume. In 2001, UTMD introduced a new filter and an improved blood bag spike for Hemo-Nate, and a needleless version.

In 2014, UTMD expects to continue to improve and expand its neonatal product line, seeking to reinforce a reputation as having the most developmentally-friendly NICU specialty products in the medical device industry.

Gynecology /Urology /Electrosurgery:

#### LETZ® System

The LETZ System (loop excision of the transformation zone) is used to excise cervical intraepithelial neoplasia (CIN) and other lower genital tract lesions related to human papilloma virus (HPV) infections. The electrosurgery procedure with hemostasis has become the standard of care for HPV cervical infection treatment, replacing cold knife scalpel, laser and cryotherapy procedural approaches because it is economical, safe, effective, quick and easy to perform, has fewer potential side effects and requires little physician training. A major incentive for performing the LETZ procedure is that it may be performed using local anesthetic in a physician's office, eliminating the time and expense of hospital or surgical center admittance. Most importantly clinically, in contrast to laser (tissue ablation) and cryotherapy (freezing of tissue), LETZ provides a fine tissue specimen for pathological assessment.

UTMD's LETZ System includes patented disposable electrodes, the FINESSE® electrosurgical generator and other miscellaneous components. A disposable loop electrode used to excise the tissue specimen is a pencil-like tube with a thin tungsten wire loop attached. The loop is available in varying sizes and includes a Safe-T-Gauge® that can be positioned so the physician can accurately colposcopically monitor the amount of tissue being excised. Excising too much tissue can compromise fertility and result in premature birth. UTMD continues to augment its specialty electrodes. For example, the Company introduced a patented conization electrode for deep endocervical disease called C-LETZ®, designed to limit the removal of healthy tissue margins that might compromise adequate cervical function. UTMD also will continue to provide adapters and other components which allow its market-leading specialty electrodes to be used with other manufacturers' electrosurgical generators.

After more than 20 years on the market, in 2012 UTMD completed a significant redesign, and achieved certification to the latest EN 60601 international safety standards, for a new FINESSE+ electrosurgical generator. The new Finesse+ design includes dispersive pad contact monitoring for improved patient safety, improved circuitry for computer controlled-output that provides a precise tissue specimen for histopathology, a more efficient output stage resulting in less heat generation and longer electronic component life, an update to modern electronic components which reduces the number of required components and increases service life, and an easy change internal filter for integral smoke evacuation, a unique feature of Finesse. UTMD obtained FDA premarketing clearance for Finesse+ in January 2013.

FINESSE+ Generator; Specialty Loop, Ball, and Needle Electrodes; FILTRESSE® Evacuator; Other Specialty Electrodes; Other UTMD Supplies and Gynecologic Tools; Femcare Trochars and Cannulae; and Femcare Laparoscopic Instruments and accessories.

UTMD has FDA clearance to market its electrosurgical system and tools for use in general surgery applications, including dermatology, plastic surgery and otolaryngology. In 2002, UTMD introduced a product line of ultra-fine tipped microdissection needles, called OptiMicro™ Needles. These electrosurgical needles are particularly useful in small-scale plastic and reconstructive surgery applications. In 2009, UTMD added extended length OptiMicro needle versions useful in certain head and neck procedures. FILTRESSE is a stand-alone surgical smoke filtration system that combines high filtration efficiency, low cost and convenient use in a surgical office setting. Other electrosurgery tools and accessories include disposable electrosurgical pens, dispersive pads, footswitches, filter packs, speculums, retractors, forceps, tenacula and hooks. UTMD acquired the distribution rights to a unique reusable four-way expander system which facilitates access to, and visualization of, the cervix, eliminating the need for less effective specula and lateral retractors. In 2007, UTMD developed OptiSpec®, a patented ultra-bright light for cervical visualization without physician distraction during exams, pap smears and other vaginal procedures requiring direct cervical visualization without the use of a colposcope. In 2009, UTMD entered into a distribution agreement for the CompuMed anesthesia injection system for providing computer-controlled, accurate, and pain-free injection of Lidocaine in LETZ procedures. In 2011, UTMD acquired Femcare's single patient use trochars and cannulae available in shielded, bladeless, optical bladeless, blunt and thoracic designs. In addition, UTMD acquired Femcare's laparoscopic instrument range and accessories which includes instruments suitable for all routine laparoscopic procedures requiring dissection, cutting, grasping and coagulation, e.g., monopolar scissors, various grasping forceps, dissecting forceps, L and J hooks, spatulae, Verres needles, suction and irrigation tubing, insufflation tubing and connectors, pressure infusor bags and control valves.

#### EPITOME®

EPITOME is a patented electrosurgical scalpel which delivers precise performance in incision and excision with hemostasis while minimizing thermal side effects. Where rapid yet precise dissection of dense tissue is necessary, such as in mammoplasty or abdominoplasty, UTMD believes that EPITOME has no close substitute. Furthermore, an independent study concludes that the EPITOME scalpel provides a significant improvement over older devices in wound healing and patient comfort. EPITOME allows a rapid incision without countertraction, yielding limited morbidity, less post-surgical pain and cosmetically superior results. EPITOME is useful where minimization of

thermal tissue injury is important but control of bleeding needed. A patented bendable version of EPITOME with a smaller active electrode was introduced in 1998. Designed to significantly reduce the chance of tissue burns due to inadvertent electrode contact and where a smaller, bent scalpel tip is needed, the bendable EPITOME is of particular value, e.g., to thoracic surgeons in harvesting the internal mammary artery during coronary artery bypass surgery, as well as to otolaryngologists for tonsillectomies or uvulopalatalplasties.

#### FILSHIE CLIP System

UTMD acquired the Filshie Clip System as part of its acquisition of Femcare in March 2011. In 2013, sales of Filshie Clips, applicators and accessories represented 35% of UTMD's total sales. The Filshie Clip is a female surgical contraception device used for tubal ligation, i.e., placed on the fallopian tubes, generally laparoscopically but also post partum during a C-Section procedure. The Filshie Clip, in use for over 30 years, is as effective as the newest occlusive devices and much more effective than the more traditional tubal ligation sterilization approaches, is as easy or easier to place as any of the traditional techniques and much easier than the newer hysteroscopic devices, is safer than electrocautery and the newer hysteroscopic devices when placed by less than well-trained and skilled clinicians, and has a substantially higher probability of reversibility when compared to all of the other approaches for women who later decide they may like to get pregnant.

There are several tubal ligation methods with varying degrees of effectiveness, safety and opportunity to be reversed. The traditional tubal ligation approach, informally known as "getting one's tubes tied", is a form of female sterilization in which the fallopian tubes are severed and sealed, permanently occluded or pinched shut. If the sterilization procedure is carried out at post-partum, the Pomeroy technique is often adopted. During this procedure a small loop of the fallopian tube is tied with a suture and the top section removed by cutting. A traditional method for interval sterilization is with the use of Bipolar Cautery (electrocautery). With this method, a current flows between the tips of forceps when applied to the fallopian tube. This current then "burns" a portion of the fallopian tube shut. Although these common methods are relatively easy to perform, the "failure rate" of these methods, defined as the percentage of patients having undergone the procedure who subsequently get pregnant, has been reported to be about 3%. The Filshie Clip, which can be used at either interval or post-partum, is at least as easy to use and has a failure rate an order of magnitude less than Bipolar Cautery and the Pomeroy technique.

Apart from Bipolar Cautery and the Pomeroy technique, other mechanical devices are the Falope Ring (or Yoon Ring) and the Hulka Clip. Both these older methods have a higher failure rate than the Filshie Clip, are associated with more post-operative pain and have generally been abandoned in favor of other sterilization techniques. Sterilization carried out with the Falope Ring also reduces the chances of a successful reversal being carried out.

In more recent years, hysteroscopic sterilization has been introduced as an alternative to laparoscopic tubal ligation. The device is the ESSURE by Conceptus, Inc. After a patent dispute with Conceptus, Hologic, Inc. terminated sales of its hysteroscopic sterilization ADIANA device in 2012. Both these devices are/were inserted transvaginally, and are considered to be permanent implants. Although similar to the Filshie Clip in their effectiveness as measured after successful application, they take some time after placement to become effective, require an additional later procedure to confirm the tubes are blocked, are not reversible allowing later pregnancy and require more clinical skill to apply correctly. Thus greater physician training and skill is required to successfully complete the procedure. These devices may also preclude a patient from receiving later electrosurgical procedures, for example ablation to address abnormal uterine bleeding, unless they are first surgically removed.

The U.S. FDA released the Filshie Clip for marketing in 1996 after a Femcare PMA submission. Now the Filshie Clip is effectively marketed in the U.S. through an exclusive distribution agreement with Cooper Surgical, Inc. In 2013, sales to Cooper Surgical for use in the U.S. were 23% of total Filshie Clip System sales. Outside the U.S., the Filshie Clip has numerous regulatory approvals and is now being sold directly by UTMD to clinicians in Ireland, the U.K. and Australia, and through specialty distributors in other countries.

#### PATHFINDER PLUS™

PATHFINDER PLUS is a proprietary endoscopic irrigation device that allows a uro/gyn surgeon to precisely irrigate, clearing the visual field, with the same hand that controls the endoscope, eliminating the need for a separate assistant to irrigate without visualization. An example of a procedure where Pathfinder has found success is ureteroscopic stone ablation.

LAWRENCE ADD-A-CATH

The Lawrence Add-a-Cath introducer is a proprietary Femcare device designed for easy suprapubic introduction of a catheter for bladder drainage. Suprapubic catheterization is generally well-recognized as a drainage method with fewer complications than with urethral catheterization. Previous to UTMD's acquisition of Femcare, it was distributed in the U.S. through an OEM customer. In 2013, UTMD introduced suprapubic catheterization procedure kits featuring the Lawrence Supra-Foley introducer which it now distributes directly to end users in the U.S.

## HOLMIUM LASER FIBRES

As part of its urology product line, Femcare distributes reusable and single patient use laser energy delivery devices which can dependably transmit both the Holmium and Nd:YAG wavelengths.

## LIBERTY® System

LIBERTY is a device for the conservative treatment and effective control of urinary incontinence in women. UTMD believes that LIBERTY is the easiest-to-use, most cost effective incontinence treatment available that yields a therapeutic effect, not just a cover-up. LIBERTY consists of a battery operated electrical stimulation unit and an intravaginal electrode probe. This physiotherapy technique, which can be done in the privacy of the home, involves passive strengthening of the periurethral muscles. Pulsed, low voltage, high frequency current is applied primarily to the pudendal neuromuscular tissue causing the pelvic area muscles to contract, leading to better muscle tone. Because electrical stimulation has no known adverse side effects, LIBERTY provides women suffering from mild to moderate incontinence an effective, lower cost and lower risk alternative to more traumatic treatments such as surgery and drug therapy.

## ENDOCURETTE™

In cooperation with Mayo Clinic, UTMD developed an advanced curette for uterine endometrial tissue sampling in the doctor's office. The sampling procedure is intended primarily to rule out precancer or cancerous change of the uterus in premenopausal women with abnormal uterine bleeding, or women with postmenopausal bleeding. The device is part of a class of catheters designed to be used without dilatation of the cervix and without general anesthetic. The inherent weakness of this type of device, which is related to its small size, is that it may not remove enough tissue of the endometrium for an accurate histologic assessment, in contrast to a more invasive D&C hospital procedure. The patented tip of the EndoCurette was designed to obtain a more thorough tissue specimen without the need for dilatation, and without an increase in patient discomfort.

## TVUS/HSG-Cath™

In order to further assess persistent abnormal or dysfunctional uterine bleeding and other suspected abnormalities of the uterus, or as a next step after endometrial tissue sampling with an EndoCurette, gynecologists are increasingly utilizing transvaginal ultrasound imaging of the uterus. UTMD's TVUS/HSG-Cath was designed and released for marketing in 2007 to provide effective cervical occlusion that allows distention of the uterus to differentiate anterior and posterior endometrium, among other irregularities, together with minimal visual obstruction of the uterus near the internal os. In addition, the TVUS/HSG-Cath may be used in hysterosalpingography radiographic procedures to assess the patency of fallopian tubes. A related device acquired in 2011 is Femcare's Spackman Style uterine cannula designed for the manipulation of the uterus and injection of fluid to test the patency of the fallopian tubes.

## LUMIN®

LUMIN® is a patented gynecological tool developed by UTMD for reliably and safely manipulating the uterus in laparoscopic procedures. LUMIN combines the strength, range of motion and versatility of the higher end reusable instruments with the lower cost and cleanliness of the inexpensive less functional disposable instruments presently on the market, while at the same time reducing the number of tools needed to move and secure the uterus.

## Blood Pressure Monitoring:

### DELTRAN® Disposable Pressure Transducer (DPT)

In pressure monitoring, a transducer is used to convert physiological (mechanical) pressure into an electrical signal that is displayed on electronic monitoring equipment. UTMD developed, patented and is now distributing its disposable transducer as a stand-alone product, and as a component in sterile blood pressure monitoring kits through direct representatives and other medical companies in the U.S., as well as independent distributors and other medical device companies internationally.



The Company believes that the DELTRAN DPT which it designed over twenty-five years ago (original patents have expired), and currently manufactures, remains the standard in terms of accuracy, reliability and ease of use. UTMD has an automated assembly line which allows the Company to effectively compete with larger suppliers on the basis of consistent quality and low manufacturing costs. Introduced in 1998, the DELTRAN PLUS provides a closed system for blood sampling, without the use of needles, reducing the risk of an unwanted infection for both the patient and the practitioner. In 2009, in conjunction with its other NICU devices, UTMD continued to configure neonatal Deltran custom kits which satisfy the special needs of conserving limited blood volume and protecting the neonate from infection.

#### Pressure Monitoring Accessories, Components and Other Molded Parts.

Components included in blood pressure monitoring kit configurations include flush devices, stopcocks, fluid administration sets, caps, pressure tubing, interface cables and organizers. The Company sells similar components designed for other medical device company applications which incorporate UTMD's technologies and designs. DELTA-CAL™ is a calibration device used to check proper functioning of an arterial pressure system. In addition, UTMD sells plastic molded parts on a subcontract basis to a number of medical and non-medical device companies. In addition, partly as a result of its excellent quality system and ISO13485 certification, UTMD performs subcontract assembly, testing and packaging of components that are proprietary to other medical device firms. UTMD believes that this practice helps better utilize its investment in fixed plant and equipment, and spreads overhead costs resulting in better profit margins on finished device sales.

#### MARKETING and COMPETITION

UTMD divides its sales into "domestic" U.S. sales and "international" sales, which are finished device and component sales to entities outside the U.S.

In the past, UTMD has divided domestic U.S. sales into "direct sales" and "OEM sales." Included in direct sales have been sales of finished devices through hospital distributors. OEM sales are theoretically to other medical device (or non-medical device) companies where UTMD products are components of their finished product offerings. The distinction starts to blur when distributors purchase components or finished devices that they relabel or market as part of a kit, or other medical device companies purchase finished devices that they sell as a distributor. A significant recent example is the Filshie Clip System sold to Cooper Surgical by Femcare-Nikomed Ltd, a subsidiary of UTMD, under a distribution agreement for the U.S. Because Cooper Surgical is another medical device company, UTMD has included these sales in its Domestic OEM Sales category since the 2011 acquisition of Femcare. However, Cooper is really a distributor of Femcare's finished devices. The regulatory responsibility is Femcare's with respect to product safety and effectiveness. However, from a marketing perspective, labels include both the Femcare and the Cooper Surgical names. UTMD could classify the sales as domestic direct because Cooper Surgical is a distributor of UTMD's subsidiary finished devices, or as domestic OEM because Cooper Surgical is another medical device company which has its name on the label. As sales of components to non-medical device entities are immaterial, UTMD will no longer try to make the distinction between domestic direct sales and domestic OEM sales. As an observation, UTMD stopped trying to make the distinction for its international sales over a decade ago, because a greater portion of its international sales were to foreign "distributors" which are difficult to classify as either direct or OEM.

##### 1) Domestic sales.

For domestic sales to end-users of finished devices, marketing efforts are complex and fragmented. UTMD's marketing focus is with clinicians who take responsibility for obtaining optimal patient care outcomes, primarily through clinical meetings and trade shows. However, in competitive bidding processes, UTMD works primarily with administrators who are responsible for hospital purchasing decisions.

UTMD competes primarily on the basis of improved patient safety and reliable device performance in the hands of a trained clinician. A number of UTMD's devices are strong brands because they are well-recognized by clinicians as clinically different and have been in use for decades. UTMD's broad offering of finished devices is comprised of dozens of specialty device types. Although there may be only a few competitors for each type, in the aggregate UTMD has dozens of U.S. medical device competitors. There are at least two competitors with significant market share for each of UTMD's device types.

As a general rule, because of UTMD's differences in design and manufacturing reliability, competitors' devices represent substitutes rather than equivalent devices. The Company's primary marketing challenge is to keep its customers focused on those differences and their important clinical benefits. In recent years, UTMD's access to hospital clinicians has become increasingly restricted and the involvement of clinicians in medical device purchasing

decisions, which is critical to the Company's success, has declined. To the degree hospitals become less focused on patient safety and clinical outcomes and more on out-of-pocket unit price, UTMD's competitive position weakens.

In 2013, UTMD sold components and finished devices to 153 other companies in the U.S. For over 30 years, the Company has utilized its manufacturing capabilities and engineering know-how to produce high quality components for other companies. Because it is well-known in that regard, UTMD does not actively market its OEM business. UTMD's website, which lists its capabilities, is often the basis for contacts for new OEM work.

Although there are hundreds of manufacturers in the U.S. with similar manufacturing capabilities, UTMD's primary competition comes from East Europe, India and China device component manufacturers which have much lower wage rate structures. To the extent that the U.S. Dollar gains strength in any period of time against foreign currencies, UTMD's ability to be cost-competitive with foreign manufacturers is additionally diminished.

## 2) International sales.

In 2011-2013, international sales represented a majority of consolidated total sales. Prior to 2011, with only a few exceptions, UTMD's international sales were to other medical device companies and distributors, not to clinical users. After the acquisition of Femcare, UTMD began the transition to selling direct to end user facilities in the UK, Australia and Ireland, which has a positive impact on revenues as well as gross margins. UTMD expects that international sales will continue to grow more rapidly than its domestic sales, as the standard of living in emerging countries continues to improve. UTMD's website provides information that frequently results in unsolicited contacts from foreign entities. The Company has thousands of competitors worldwide.

## DISTRIBUTION

An important success factor in the current U.S. healthcare industry is access to customers. Although the U.S. hospital supplier environment has been consolidating as a result of group purchasing organizations (GPOs), or their equivalents, the financial relationships and true benefits for hospitals has come under scrutiny, both by hospitals' managements themselves and by the government. As a potential positive factor to UTMD's future performance, the increased scrutiny may lead to an understanding consistent with UTMD's belief that U.S. hospitals are not currently saving money under the GPO contracts when it comes to specialty medical devices that can reduce complications and unwanted side effects.

In addition, the longer term overall cost of care in the U.S. will continue to increase, with quality of care lower, as innovative suppliers are excluded from participating in the marketplace as a result of unnecessary regulatory and other purely administrative burdens, as well as the medical device excise tax levied under the 2010 Patient Protection and Affordable Care Act. The length of time and number of administrative steps required in evaluating new products for use in hospitals has grown substantially in recent years. As a potential negative factor to future performance, as UTMD introduces new products it believes are safer and more effective, it may find itself excluded from certain customers because of the existence of long term supply agreements for existing products. UTMD may also be unable to establish viable relationships with other medical device companies that do have access to users but lack an interest in the Company's approach or demand too great a financial or administrative burden.

When U.S. hospital customers request it, UTMD provides its products through national distribution companies, also known as Med/Surg distributors. Sales to Med/Surg distributors currently comprise about 14% of total domestic direct sales.

In the U.S., Ireland and UK, UTMD sells its products through its own directly employed sales force and through selective independent manufacturer representatives. Direct sales representatives focus on applications for UTMD products where customer training and support may be important. The direct sales force is comprised both of "outside" representatives operating remotely in specific geographic areas, and "inside" representatives who operate primarily by telephone from corporate offices. Direct representatives are trained to understand the medical procedures being performed within UTMD's clinical focus. Through the use of its one-on-one contacts with physicians and other clinical practitioners directly involved in patient care, the direct sales force positions UTMD to gain market leadership with specific solutions to clinical problems. In addition to its direct representatives, UTMD utilizes third party consulting clinical specialists to augment its customer training programs

In addition to traditional sales approaches, UTMD encourages customers to take advantage of fast and easy online ordering at <https://storefront.utahmed.com>. UTMD introduced this advanced portal website in 2006. It provides a

convenient and secure method for placing orders, allows the customer to easily monitor the status of orders and shipments, simplifies the reordering process and gives quick access to account information.

Additionally, UTMD sells component parts to other companies for use with their product lines. This OEM distribution channel effort is simply maximizing utilization of manufacturing capabilities that are otherwise needed for UTMD's primary business, and, except in the case of distribution of the Filshie Clip System in the U.S. by Cooper Surgical, Inc., does not compete with or dilute UTMD's direct distribution and marketing programs.

Internationally, the Company sells its products through over 350 regional distributors and OEMs (other medical device manufacturers and/or distributors) in addition to its own direct representatives in the UK and Ireland. Although sales by Femcare Australia are direct to end users, UTMD does not currently employ direct sales representatives there. The international business activity outside the UK and Ireland is driven by UTMD's brand awareness by clinicians and the initiative and resourcefulness of independent distributors. Ten percent of these distributors represented over 80% of UTMD's indirect international sales in both 2013 and 2012.

UTMD's Internet website [www.utahmed.com](http://www.utahmed.com) is a frequent conduit for international customer inquiries.

## NEW PRODUCT DEVELOPMENT

New product development has been a key ingredient to UTMD's market identity. Product development takes several interrelated forms: 1) improvements, enhancements and extensions of current product lines in response to clinical needs or clinician requests, 2) introduction of new or augmented devices that represent a significant improvement in safety, effectiveness and/or cost of care, and 3) acquisitions of products or technology from others. Manufacturing process development is an equally important aspect that cannot be separated from the successful design and development of new devices.

Because of UTMD's reputation as a focused product developer, its financial strength and its established clinician user base, it enjoys a substantial inflow of new product development ideas. Internal development, joint development, product acquisitions and licensing arrangements are all included as viable options in the investigation of opportunities. Only a small percentage of ideas survive feasibility screening. For internal development purposes, projects are assigned to a project manager who assembles an interdisciplinary, cross-functional development team. The team's objective is to have a clinically acceptable, manufacturable and regulatory-released product ready for marketing by a specific date. Approximately ten projects on the average, depending on the level of resources required, are underway at UTMD at any given time. More than 50% of assigned projects do not succeed in attaining a product that meets all of the Company's criteria. In particular, this includes a product that is highly reliable, easy to use, cost-effective, safe, useful and differentiated from the competition. Once a product is developed, tooled, fully tested and cleared for marketing by the applicable regulatory entity(ies) in the U.S. and/or other countries, there remains a reasonable probability it cannot be successfully marketed for any number of reasons, not the least of which is being beaten to the market by a competitor with a better solution, or not having access to users because of limitations in marketing and distribution resources or exclusionary contracts of GPOs.

UTMD's current product development projects are in the following areas: 1) augmentation of Femcare devices acquired in 2011, 2) neonatal intensive care, 3) specialized procedures for the assessment and treatment of cervical/uterine disease, 4) labor and delivery procedures, and 5) product and process development for OEM customers. Internal product development expenses are expected to be in the range of 1-2% of sales in 2014.

## EMPLOYEES

At December 31, 2013, the Company had 177 employees, and an additional eleven subcontract employees in Utah. The subcontract employees represent UTMD's desire to provide handicapped persons additional work opportunities, hired through the Utah state-supported Work Activity Center. The average tenure of UTMD employees in the U.S. is over fourteen years and in Ireland is over eleven years, which conveys an important benefit due to the level of training required to produce consistently high quality medical devices. The Company's continued success will depend to a large extent upon its ability to retain skilled and experienced employees. No assurances can be given that the Company will be able to retain or attract such employees in the future, although management is committed to providing an attractive environment in which reliable, creative and high achieving people wish to work.

None of the Company's officers or directors is bound by restrictive covenants from prior employers that limit their ability to contribute to UTMD's programs. All professional employees sign a code of conduct and a confidentiality and non-compete agreement as a condition of employment, and as consideration for receipt of stock option awards and participation in the annual sales and management bonus program. All employees participate in contemporaneous performance-based bonus programs. None of the Company's employees is represented by labor unions or other collective bargaining groups.

## PATENTS, TRADEMARKS AND TECHNOLOGY LICENSES

The Company owns or exclusively licenses twenty unexpired patents, and is the licensee of certain other technology. There can be no assurance, however, that patents will be issued with respect to any pending applications, that marketable products will result from the patents or that issued patents can be successfully defended in a patent infringement situation. The Company also owns forty registered trademarks which have achieved significant brand recognition. The Company believes that its trademarks and tradenames, many of which have become well known in the global medical community through decades of successful use of the associated medical devices, have substantially more intangible value than its patents.

The ability of the Company to achieve commercial success depends in part on the protection afforded by its patents and trademarks. However, UTMD believes that the protections afforded by patents and trademarks are less important to UTMD's business, taken as a whole, than a medical device's incremental clinical utility, which may be dominated by a number of other factors including relative cost, ease of use, ease of training/adoption, perceived clinical value of different design features, risk of use in applicable procedures, the reliability of achieving a desired outcome in the hands of different users and market access to potential users. In cases where competitors introduce products that may infringe on UTMD's technology or trademarks, the Company has an obligation to its stockholders to defend its intangible property to the extent that it can afford to do so, and that it is material to the Company's success. The Company must also defend itself when competitors allege that UTMD may be infringing their technology.

As a matter of policy, UTMD has acquired and will continue to acquire the use of technology from third parties that can be synergistically combined with UTMD proprietary product ideas. During 2013, ongoing royalties included in cost of goods sold were \$282. Other royalties have been previously paid as a lump sum, or were incorporated into the price of acquisitions or into the cost of purchased components which practice certain patents of third parties. Also as a matter of policy, UTMD licenses its proprietary technology to others in circumstances where licensing does not directly compete with UTMD's own marketing initiatives. UTMD's future financial performance may also depend on the marketing ability of other companies that license UTMD's technology. During 2013 the Company received \$90 in royalty income, compared to \$89 in 2012 and \$71 in 2011.

## GOVERNMENT REGULATION

UTMD's products and manufacturing processes are subject to regulation by the U.S. Food & Drug Administration ("FDA"), as well as other regulatory bodies globally. The FDA has authority to regulate the marketing, manufacturing, labeling, packaging and distribution of medical devices in the U.S. In addition, requirements exist under other federal laws and under state, local and foreign statutes that may apply to the manufacturing and marketing of the Company's medical devices.

All manufacturers of medical devices must register with the FDA and list all medical devices produced by them. In addition, prior to commercial distribution of some devices for human use, a manufacturer must file a notice with the FDA, setting forth certain information regarding the safety and effectiveness of the device that is acceptable in content to the FDA.

Devices which are classified in Class I are subject only to the general controls concerning adulteration, misbranding, good manufacturing practices, record keeping and reporting requirements. Devices classified in Class II must, in addition, comply with special controls or performance standards promulgated by the FDA.

Except for the Filshie Clip System, all of UTMD's present products are unclassified, Class I or Class II devices. The Filshie Clip System is a Class III device which has more stringent regulatory controls. The Company is in compliance with all applicable U.S. regulatory standards including CFR Part 820, the FDA Quality System Regulation (QSR) effective in 1997, also known as cGMPs (current good manufacturing practices). The Company's most recent FDA inspection was in March 2010, which did not result in the issuance of any FDA-483 observations.

In 1994, UTMD received certification of its quality system under the ISO9001/EN46001 standards ("ISO" stands for "International Organization of Standardization") which it maintained until December 2003. In October 2003, UTMD's Utah facility was certified under the more stringent ISO13485 standard for medical devices. UTMD's Ireland facility was certified under the concomitant ISO13488 standard. In July 2006, both facility ISO certifications were upgraded to the even more stringent ISO13485:2003 standards, which continue to be maintained. UTMD's Femcare subsidiary is also certified under ISO13485:2003. UTMD remains on a continuous periodic audit schedule by its independent notified body in order to stay current with international regulatory standards, and retain its certifications. UTMD has



received CE Mark certifications (demonstrates proof of compliance with the European Community's ISO standards) for essentially all of its products. The U.S. FDA QSR was developed in harmony with the ISO standards.

## SOURCES AND AVAILABILITY OF RAW MATERIALS

Most of the components which the Company purchases from various vendors are readily available from a number of sources. That notwithstanding, the Company maintains safety stocks that anticipate the time required to source and qualify new vendors. Alternative sourcing of various components is continually underway. Vendors are qualified by Corporate Quality Assurance. In the few cases where the Company has a sole source, it either maintains or has agreement with the supplier to maintain excess safety stocks that would cover the time required to develop and qualify a new source. The Company has a vendor quality monitoring program that includes routinely checking incoming material for conformance to specifications, as required per written procedures.

## EXPORTS

UTMD regards the international marketplace as the most important element of its growth strategy. UTMD is keenly aware that not only are international markets different from the U.S. market, but also that each country has its own set of driving influences that affects the dynamics of the nature of care given and medical devices used. The Company operates three international facilities; in Romsey, Hampshire, England; in Castle Hill, NSW, Australia and in Athlone, County Westmeath, Ireland. These facilities offer a number of advantages: 1) from a marketing point of view, better response to Europe, Middle East, Africa and Australia customers, including a better understanding of customer needs, less costly distribution and, in the EU, duty-free access to 500 million patients; 2) from a regulatory point of view, faster new product introductions; and 3) from a manufacturing point of view, reduced dependence on one manufacturing site and increased capacity for existing U.S. facilities.

Total revenues from customers outside the U.S. in 2013 were \$21,528 (53% of total sales), compared to \$21,591 (52% of total sales) in 2012 and \$19,007 (50% of total sales) in 2011. Exports from the U.S. to international customers were \$5,203 in 2013, \$5,295 in 2012 and \$5,387 in 2011. Exports represented 24%, 25% and 28% of total UTMD international trade sales in 2013, 2012 and 2011, respectively. U.S. international trade sales (exports) exclude intercompany sales to UTMD subsidiaries which distribute U.S.-made finished devices directly to end-users in Ireland, the U.K. and Australia.

For sales by international geographic area, please see notes 1 and 11 to the Consolidated Financial Statements.

## BACKLOG

“Backlog” is defined as orders received and accepted by UTMD which have not shipped yet. As a supplier of primarily disposable hospital products, the nature of UTMD’s business requires fast response to customer orders. Virtually all direct shipments to end users are accomplished within a few days of receipt of customer purchase orders. Consequently, UTMD’s backlog at any point in time is comprised mainly of orders from OEM and international customers, which purchase in larger quantities at less frequent intervals. Backlog shippable in less than 90 days was \$2,002 as of January 1, 2014, \$2,316 as of January 1, 2013 and \$1,293 as of January 1, 2012.

## SEASONAL ASPECTS

The Company's business is generally not affected by seasonal factors, but it is affected by uneven purchasing patterns of U.S. OEM customers and international distributors.

## PRODUCT LIABILITY RISK MANAGEMENT

The risk of product liability lawsuits is a negative factor in the medical device business because devices are frequently used in inherently risky situations to help clinicians achieve a more positive outcome than what might otherwise be the case. In any lawsuit against a company where an individual plaintiff suffers permanent physical injury, a

possibility of a large award for damages exists whether or not a causal relationship exists. However, no such damages have been awarded against UTMD in its 35 year history.

UTMD in the U.S. and Ireland is self-insured for product liability risk, and reserves funds against its current performance on an ongoing basis to provide for its defense should any lawsuits be filed. The Company's average cost of defense (excluding Femcare) over the last twenty-one years was \$21 per year. Because the Filshie Clip is a Class III device, Femcare insures its product liability risk through a third-party insurance company at a cost of about £90 per year.

The best defense the Company believes that it has is the consistent conformance to specifications of its proven safe and effective products. Over the time span of the last twenty-one years, UTMD has been named as a defendant in a total of six lawsuits. Four lawsuits involved a patient injury related to operative vaginal deliveries where a UTMD VAD birthing cup or hand pump was used. The VADS devices in all four cases did conform to specifications. UTMD was ultimately dismissed as a defendant in all four of the lawsuits, and legal costs were not material to performance. During the last twenty-one year period of time during which over twenty-seven million finished devices (excluding Femcare) were used, there were only two other lawsuits involving UTMD devices. In the first, regarding the use of EndoCurette, there was no evidence of patient injury. The lawsuit was settled in 2010 for an immaterial amount to avoid the diversion of management time and substantial costs of litigation, even though UTMD was confident that the case was without merit. In the second, UTMD was brought into a lawsuit by a defendant physician, speculating a design deficiency in a Finesse electrosurgical generator (ESU) which had been in use for eighteen years before the injury event, and used successfully by the same physician after the event. The injured patient did not allege any fault by UTMD. The case was settled in 2012 without any UTMD involvement or liability. UTMD is seeking reimbursement of its legal costs. Presently, there are no product liability lawsuits in which UTMD is a defendant.

In the current tort system in the U.S., frivolous product liability cases do get filed where aggressive attorneys calculate that a company will find it cheaper to settle for some nominal amount in lieu of substantial defense costs of going to court.

#### 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 1A – RISK FACTORS

Legislative healthcare reform in the United States, as embodied in The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (the “Acts”) adds a substantial excise tax that began in 2013, increases administrative costs and may lead to decreased revenues:

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

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

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

Since the FDA reserves to itself the interpretation of which vague industry standards comprise law at any point in time, it is impossible for any medical device manufacturer to ever be confident that it is operating within the Agency's version of the law. The result is that companies, including UTMD, are considered guilty prior to proving their innocence. New premarketing submission rules and substantial increases in "user fees" increase development costs and result in delays to revenues from new or improved products.

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

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

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

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

A product liability lawsuit could result in significant legal expenses and a large award against the Company:

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

The Company's reliance on third 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.

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

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

#### ITEM 1B – UNRESOLVED STAFF COMMENTS

None

#### ITEM 2 - PROPERTIES

Office and Manufacturing Facilities.

At the beginning of 2014, the Company's operations were located in 110,000 square feet of facilities near Salt Lake City, Utah, a 77,000 square foot facility in Athlone, County Westmeath, Ireland, a 12,000 square foot facility near Romsey, Hampshire, England, and a 1,000 square foot temporary facility in Baulkham Hills, NSW, Australia. In 2011, UTMD assumed the lease for its Romsey facilities which house Femcare in the UK. The Company has recently purchased a 3,200 square foot facility in Castle Hill NSW, Australia. Pending the completion of its new Australia facility, the Company is leasing nearby space on a short term basis. In the U.S. and Ireland, UTMD owns all of its property and facilities with the exception of a long-term lease with 18 years remaining on one section of its Midvale parking lot.

UTMD is a vertically-integrated manufacturing company. Capabilities include silicone and plastics-forming operations including injection molding, insert and over-molding, thermoforming and extrusion; sensor production; manual and automated assembly of mechanical, electrical and electronic components; parts printing; various testing modalities; advanced packaging in clean room conditions; and a machine shop for mold-making and fabrication of assembly tools and fixtures. Capabilities also include an R&D laboratory for both electronic and chemical processes, software development resources, communications and computer systems networked real time internationally, and administrative offices.

#### ITEM 3 - LEGAL PROCEEDINGS

The Company may be a party from time to time in litigation incidental to its business. Presently, there is no litigation for which the Company believes the outcome may be material to its financial results.

#### ITEM 4 - RESERVED



## PART II

## ITEM 5 - MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

## Market Information.

UTMD's common stock trades on the NASDAQ Global Market (symbol:UTMD). The following table sets forth the high and low sales price information as reported by NASDAQ for the periods indicated:

|             | 2013<br>High | Low      | 2012<br>High | Low      |
|-------------|--------------|----------|--------------|----------|
| 1st Quarter | \$ 49.85     | \$ 36.18 | \$ 31.90     | \$ 26.61 |
| 2nd Quarter | 54.59        | 40.84    | 36.00        | 27.97    |
| 3rd Quarter | 64.84        | 48.30    | 34.74        | 33.30    |
| 4th Quarter | 60.89        | 48.46    | 36.32        | 32.99    |

## Stockholders.

The approximate number of beneficial stockholders of UTMD's common stock as of March 4, 2014 was 2,500.

## Dividends.

The following sets forth cash dividends paid during the past two years:

| Record Date           | Payable Date                                | Per Share<br>Amount |
|-----------------------|---|---------------------|
| March 19,<br>2012     | April 4, 2012                               | \$0.24              |
| June 15, 2012         | July 5, 2012                                | 0.24                |
| September 14,<br>2012 | October 5,<br>2012                          | 0.24                |
| December 13,<br>2012  | December 28,<br>2012                        | 0.245               |
| March 19,<br>2013     | April 4, 2013                               | 0.245               |
| June 14, 2013         | July 3, 2013                                | 0.245               |
| September 16,<br>2013 | October 4,<br>2013                          | 0.245               |
| December 16,<br>2013  | December 30,<br>2013                        | 0.25                |
|                       | 2012 total cash dividends paid per<br>share | \$ 0.965            |
|                       | 2013 total cash dividends paid per<br>share | \$ 0.985            |

## Issuer Purchases of Equity Securities.

UTMD did not purchase any of its own securities during fourth quarter 2013.



## ITEM 6 - SELECTED FINANCIAL DATA

Dollar amounts are in thousands, except per share data.

The following selected consolidated financial data of UTMD and its subsidiaries for the five years ended December 31, 2013, are derived from the audited financial statements and notes of UTMD and its subsidiaries, certain of which are included in this report. The selected consolidated financial data should be read in conjunction with UTMD's Consolidated Financial Statements and the notes included elsewhere in this report.

|                                     | Year Ended December 31 |           |           |           |           |
|-------------------------------------|------------------------|-----------|-----------|-----------|-----------|
|                                     | 2013                   | 2012      | 2011      | 2010      | 2009      |
| Net Sales                           | \$ 40,493              | \$ 41,552 | \$ 37,860 | \$ 25,121 | \$ 25,916 |
| Net Income                          | 11,406                 | 10,169    | 7,414     | 6,014     | 6,258     |
| Earnings Per Common Share (Diluted) | 3.02                   | 2.74      | 2.03      | 1.65      | 1.72      |
| Total Assets                        | 80,711                 | 76,935    | 76,389    | 41,238    | 41,754    |
| Working Capital                     | 16,675                 | 10,712    | 7,385     | 23,239    | 24,472    |
| Long-term Debt                      | 5,065                  | 9,003     | 16,242    | 909       | 1,403     |
| Cash Dividends Per Common Share     | 0.985                  | 0.965     | 0.945     | 1.665     | 0.925     |

|                                     | Quarterly Data for 2013 |                |               |                |
|-------------------------------------|-------------------------|----------------|---------------|----------------|
|                                     | First Quarter           | Second Quarter | Third Quarter | Fourth Quarter |
| Net Sales                           | \$ 10,374               | \$ 10,002      | \$ 10,032     | \$ 10,085      |
| Gross Profit                        | 6,281                   | 6,048          | 5,949         | 5,994          |
| Net Income                          | 2,735                   | 2,632          | 2,571         | 3,468          |
| Earnings Per Common Share (Diluted) | .73                     | .70            | .68           | .92            |

|                                     | Quarterly Data for 2012 |                |               |                |
|-------------------------------------|-------------------------|----------------|---------------|----------------|
|                                     | First Quarter           | Second Quarter | Third Quarter | Fourth Quarter |
| Net Sales                           | \$ 11,206               | \$ 10,025      | \$ 10,489     | \$ 9,832       |
| Gross Profit                        | 6,738                   | 6,071          | 6,477         | 6,021          |
| Net Income                          | 2,789                   | 2,401          | 2,721         | 2,259          |
| Earnings Per Common Share (Diluted) | .76                     | .65            | .73           | .61            |

## ITEM 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

The following comments should be read in conjunction with the accompanying financial statements.

## Overview

UTMD's 2013 income statement results compared to 2012 were as follows:

|                    | 2013      | 2012      | change  |
|--------------------|-----------|-----------|---------|
| Net Sales          | \$ 40,493 | \$ 41,552 | (2.5 %) |
| Gross Profit       | 24,273    | 25,307    | (4.1 %) |
| Operating Income   | 14,828    | 15,196    | (2.4 %) |
| Income Before Tax  | 14,476    | 14,537    | (0.4 %) |
| Net Income         | 11,406    | 10,169    | 12.2 %  |
| Earnings per Share | 3.022     | 2.740     | 10.3 %  |

A comparison of profit margins in 2013 to 2012 follows:

|                         | 2013   | 2012   |
|-------------------------|--------|--------|
| Gross Profit Margin     | 59.9 % | 60.9 % |
| Operating Income Margin | 36.6 % | 36.6 % |
| Net Income Margin       | 28.2 % | 24.5 % |

Net income and earnings per share in 2013 benefited from a favorable \$976 adjustment in the income tax provision due to the United Kingdom (UK) enacting substantially lower corporate income tax rates.

As stockholders likely remember, in March 2011 UTMD acquired 100% of the stock of Femcare Holdings Limited in the UK, and its subsidiaries. Included in the purchase price were identifiable intangible assets (IIA) of \$38.8 million, almost all of which are being amortized over a fifteen year useful life in operating expenses. This approximately \$2.5 million per year amortization expense reduces the income statement tax provision, but is not deductible on the tax return. As a consequence, on the acquisition date, UTMD created a deferred tax liability (DTL) on its balance sheet, using UK tax rates then in effect, which represented the tax impact of the amortization of IIA over the fifteen year life.

According to U.S. GAAP, the total effect of the tax rate changes on deferred tax balances is recorded as a component of the income tax provision related to continuing operations for the period in which the law is enacted. In other words, the total reduction in the DTL that results from lower future tax rates over the remaining almost 12 years of Femcare IIA amortization, which amounts to \$976, reduced UTMD's reported 2013 tax provision and increased reported net profit by the same amount, per U.S. GAAP. The adjustment only affected UTMD's income tax provision, net income and EPS; not sales, gross profits, operating income or earnings before taxes.

The Company's continued excellent positive cash flow in 2013 allowed it to continue to pay down the five-year term loans that it incurred to help finance the purchase of Femcare Group Ltd in March 2011, while increasing cash dividends paid to stockholders.

Total consolidated sales were down 2.5% in 2013 compared to 2012. Thirty percent of the decline was due to a weaker Great Britain Pound (GBP) and Australia Dollar (AUD) relative to the U.S. Dollar (USD) when consolidating Femcare UK and AUS sales. The remaining decline of 1.8% was projected at the beginning of 2013 due to known distributor overstocking in 2012. Consolidated international sales in USD terms, which were 53% of total sales, were almost the same as in 2012, despite the weaker GBP and AUD. Domestic sales, excluding Femcare UK sales of its

Filshie Clip System to its U.S. distributor, Cooper Surgical, Inc. (COO), were down 2.8%. Domestic sales to U.S. OEM customers increased 11%, offsetting a 4% decline in finished device sales to domestic end-users. The most significant portion of the decline in U.S. end user sales was in neonatal products, which declined \$832 in a very competitive year.

About half of the 1% decline in gross profit margin (GPM) was due to a less favorable product mix, and the rest from increases in health plan expenses in the U.S. and Ireland. By reducing G&A operating expenses, UTMD was able to make up for the lower GPM and achieve a 2013 operating profit margin (OPM) the same as in 2012.

UTMD's Net Income Margin (NIM) increased significantly due to lower interest expense resulting from lower loan balances, a lower income tax provision on UK subsidiary earnings before tax (EBT) and, most significantly, the \$976 reduction in the 2013 income tax provision due to the adjustment in the DTL for future tax periods. The effective consolidated income tax provision rate for 2013 was 21.2% compared to 30.0% in 2012. The non-U.S. GAAP 2013 income tax provision rate, excluding the \$976 reduction, was 28.0%.

Earnings per share (EPS) in 2013 were \$3.02 compared to \$2.74 in 2012. Without the \$976 reduction in the income tax provision due to the DTL adjustment, non-GAAP EPS were \$2.76. EPS were higher despite lower EBT and greater number of diluted shares for calculating EPS, which were up 1.7% from 2012, because of the lower UK income tax rate for 2013. The increase in diluted shares was due to a higher average share price of \$49.94 in 2013 compared to \$32.69 in 2012.

The Company believes that the presentation of results excluding the DTL adjustment provides meaningful supplemental information to both management and investors that is indicative of UTMD's core operating results in 2013. Therefore, UTMD believes these non-GAAP financial measures facilitate comparison of operating results across reporting periods. The DTL adjustment was the result of the UK enactment of corporate income tax rates for future years, causing a lower deferred tax liability as of December 31, 2013 for future non-deductible amortization of identifiable intangible asset expense.

The Company believes that both management and investors benefit from referring to these non-GAAP financial measures in assessing UTMD's performance and when planning, forecasting, and analyzing future periods. These non-GAAP financial measures also facilitate management's internal comparisons to UTMD's historical performance. The non-GAAP financial measures disclosed by UTMD should not be considered a substitute for or superior to financial measures calculated in accordance with GAAP, and the financial results calculated in accordance with GAAP and reconciliations to those financial statements should be carefully evaluated.

There were significant changes in UTMD's Balance Sheet at December 31, 2013 from December 31, 2012. Current assets increased \$5.8 million (cash & investments increased \$5.5 million, and inventories increased \$0.4 million), current liabilities decreased \$0.2 million and notes payable declined \$3.9 million. Stockholders' Equity increased \$9.6 million net of cash dividends paid to stockholders of \$3.7 million.

Measures of the Company's liquidity and overall financial condition improved in 2013 as UTMD reduced its total liabilities by 22%. UTMD's current ratio (current assets to current liabilities) increased to 3.2 at the end of 2013 from 2.4 a year earlier, and the total debt ratio (total liabilities to total assets) declined to 25% from 34% at the end of 2012. Cash generation remained strong enough to increase quarterly cash dividend payout rate to stockholders by 2% while at the same time paying down the bank loan principal balances by \$3.9 million. Ending days in accounts receivable (A/R) improved to 33 from 36, while A/R over 90 days from date of invoice remained less than 1% of total A/R. Average inventory turns improved from 3.5 in 2012 to 3.6 in 2013. The return on average stockholders' equity (prior to the payment of dividends) was 20% in 2013 compared to 22% for 2012 due to the 19% increase in stockholders' equity.

#### Productivity of Assets and Working Capital.

a) Assets. Year-end 2013 total assets were \$80,711 compared to \$76,935 at the end of 2012. Current assets increased \$5,751 due to a \$5,524 increase in cash and a \$352 increase in inventories. The two components of Femcare intangibles at year-end 2013 were goodwill of \$8,457 and identifiable intangible assets of \$32,315, reduced by accumulated amortization of \$7,459 since the acquisition date of March 18, 2011. The productivity of total assets

(average total asset turns = total sales divided by average total assets for the year) in 2013 was 51% compared to 54% in 2012. The decline was due to the substantial increase in cash.

Property, plant and equipment (PP&E) assets are comprised of Utah, Ireland, England and Australia manufacturing molds, production tooling and equipment, test equipment, computer/communications equipment and software, and facilities. Ending 2013 net consolidated PP&E (depreciated book value of all fixed assets) decreased \$99 as a result of \$611 in depreciation, capital expenditures of \$339 and the year-end effect of USD currency exchange rates on the value of PP&E in Ireland, England and Australia. In USD terms, the net book value of PP&E in the U.S. decreased \$206 during 2013, in Ireland increased \$126, in England decreased \$38 and in Australia increased \$20. End of year PP&E turns (Sales divided by Net PP&E) were 4.9 in both 2013 and 2012. In contrast to UTMD, Femcare UK leases its facilities and subcontracts most of its manufacturing. The year-end 2013 net book value (after accumulated depreciation) of consolidated PP&E was 30% of purchase cost. Since UTMD's PP&E is in good working order and capable of supporting increased sales activity, the continued productivity of fixed assets will remain a source of future profitability. In 2014, new PP&E purchases are not expected to exceed depreciation of fixed assets.

Year-end 2013 inventories increased \$352 from the beginning of the year. 18% of the increase was due to a stronger EURO and GBP at the end of 2013 compared to the end of 2012. Average 2013 inventory turns were 3.6 compared to 3.5 in 2012. Net (after allowance for doubtful accounts) year-end trade accounts receivable (A/R) balances decreased \$249 (6%) due to lower sales and tighter credit terms. Average days in A/R on December 31, 2013 of 33 days, based on 4Q 2013 shipments, was down from 36 days at the end of 2012. This performance remained well within management's continuing trade A/R objective. The Company believes any older A/R will be collected or are within its reserve balances for uncollectible accounts.

Working capital at year-end 2013 was \$16,675 compared to \$10,712 at year-end 2012. From the end of 2012, 2013 year-end current assets increased 31% (\$5,751) and year-end current liabilities decreased 3% (\$212). This had a leveraged effect on the current ratio, which improved to 3.2 from 2.4 at the end of 2012.

The increase in current assets resulted from a \$5,524 increase in cash. Year-end 2013 and 2012 cash and investment balances were \$14,451 and \$8,913, representing 18% and 12% of total assets, respectively. The end of 2013 working capital exceeds UTMD's needs for normal operations, meeting current interest and debt repayment obligations and paying planned shareholder cash dividends. It is also sufficient for periodically repurchasing enough shares to offset dilution from employee and director options, and internally financing organic growth. If, however, UTMD has the opportunity for another major accretive acquisition, current working capital might not be sufficient.

UTMD paid a net \$41,084 for Femcare in March 2011. The remaining principal balance of the loans incurred to help finance the purchase of Femcare as of December 31, 2013 (using the year-end 2013 GBP to USD conversion rate) is \$9,117. Because the remaining Femcare loan payments are fixed and cannot be paid early without penalty, UTMD expects to use \$4,050 to reduce loan balances in 2014, following use of \$3,908 in 2013 and \$9,093 in 2012. Even after continued shareholder cash dividend payments, UTMD anticipates increasing cash balances during 2014, unless opportunities occur such as another acquisition, or unusual investment in PP&E or technology, or share repurchase at an attractive price. Without currently identified opportunities for significant uses of cash, UTMD's current ratio at the end of 2014 will be higher than at the end of 2013.

Net intangible assets (after accumulated amortization) are comprised of the capitalized costs of obtaining patents and other intellectual property including technology rights, and identifiable intangibles and goodwill resulting from acquisitions. The Femcare intangible assets purchased by UTMD in 2011 are described in Note 6. Net intangible assets were \$48,095 at the end of 2013 compared to \$49,972 at the end of 2012. Net intangible assets at the end of 2013 represented 60% of total assets compared to 65% at the end of 2012. UTMD's goodwill balance was \$15,649 at the end of 2013. Under current U.S. GAAP, goodwill is not expensed unless and until the market value of the acquired entity becomes impaired. The three prior acquisitions of 1997, 1998 and 2004 continue to be viable parts of UTMD's overall business. UTMD does not expect the current goodwill value associated with the four acquisitions (including Femcare) to become impaired in 2014. Purchases of intangibles in 2013 were \$5, while there was \$2,584 in amortization expense. The 2013 non-cash amortization expense of Femcare identifiable intangible assets was \$2,525 compared to \$2,561 in 2012. The difference was due to the USD/GBP exchange rate. The non-cash 2014 amortization expense of Femcare identifiable intangible assets is expected to be about \$2,584 on £1,615 of expense.

b) Liabilities. At the end of 2013, UTMD's total liabilities decreased 22% (\$5,833) from the end of 2012. The resulting 2013 year-end total debt ratio was 25%, compared to 34% at the end of 2012. Total liabilities decreased primarily because of repayment of the bank loans (which had 2013 beginning and year-ending balances of \$13,005 and \$9,117 respectively) that UTMD obtained to help finance the Femcare acquisition in 2011. The deferred tax liability (DTL) created as a result of the fifteen year tax consequence of the amortization of the Femcare identifiable intangible assets had a 2013 year-end balance of \$6,510, down from \$7,889 a year earlier. As noted above, \$976 of the 2013 decrease was an adjustment related to Great Britain reducing corporate income tax rates looking forward. The Femcare UK loan declined \$2,488 in book value, compared to principal payments of \$2,508. In GBP terms, the note declined 31% from £5,200 at the end of 2012 to £3,600 at the end of 2013. The differences between the decline in the



period ending balances and the principal payments during the year resulted from timing of currency exchange rates applied to balance sheet loan balances. Principal payments on the Femcare US loan were \$1,400, as the note declined from \$4,550 at the end of 2012 to \$3,150 at the end of 2013. UTMD has repaid the variable interest rate portion of the USD note, and anticipates repaying the remaining GBP and USD fixed interest rate portions ratably over the remaining life to March 2016. Year-end 2013 consolidated current liabilities were \$212 lower than at year-end 2012 as a result of accounts payable being \$227 lower. In addition to liabilities stated on the balance sheet, UTMD has operating lease and purchase obligations described in Note 8.

Results of Operations.

a) Revenues. Global consolidated sales in 2013 were \$40,493, compared to \$41,552 in 2012 and \$37,860 in 2011.

The Company believes that revenue should be recognized at the time of shipment as title generally passes to the customer at the time of shipment, or completion of services performed under contract. Revenue recognized by UTMD is based upon documented arrangements and fixed contracts in which the selling price is fixed prior to acceptance and completion of an order. Revenue from product or service sales is generally recognized at the time the product is shipped or service completed and invoiced, and collectibility is reasonably assured. There are no post-shipment obligations which have been or are expected to be material to financial results.

There are circumstances under which revenue may be recognized when product is not shipped, which meet the criteria of SAB 104: the Company provides engineering services, for example, design and production of manufacturing tooling that may be used in subsequent UTMD manufacturing of custom components for other companies. This revenue is recognized when UTMD's service has been completed according to a fixed contractual agreement.

Terms of sale are established in advance of UTMD's acceptance of customer orders. In the U.S., Ireland, UK and Australia, UTMD generally accepts orders directly from and ships directly to end user clinical facilities, as well as third party med/surg distributors, under UTMD's Standard Terms and Conditions (T&C) of Sale. About 14% of UTMD's domestic end user sales 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 are substantially the same in the U.S., Ireland, UK and Australia.

UTMD may have separate discounted pricing agreements with a clinical facility or group of affiliated facilities based on volume of purchases. Pricing agreements 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 determine the fixed price by part number for the next agreement period of one, two or three years. For new customers, the customer's best estimate of volume is accepted by UTMD for determining the ensuing fixed prices for the agreement period. New customers typically have one-year agreements. 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 above that the selling price is fixed prior to the acceptance of a specific customer order. UTMD may from time to time establish a similar fixed price agreement with a Group Purchasing Organization (GPO) in the U.S. GPOs are bargaining agents for member hospitals, not customers of UTMD. Except for an administrative fee, generally 3% of UTMD's sales to a GPO's members, the T&C of GPO agreements are not materially different from UTMD's Standard T&C of Sale.

UTMD's global consolidated sales are comprised of domestic and international sales. Domestic sales include 1) direct domestic sales, sales of finished devices to end-users and med/surg distributors in the U.S.; 2) domestic OEM sales, sales of components or finished products, which may not be medical devices, to other companies for inclusion in their products; and 3) sales of the Filshie Clip System by Femcare UK to its U.S. distributor, COO. International sales are sales from UTMD in the U.S. to customers outside the U.S. and all sales from its subsidiaries in Ireland, Australia and the UK other than the Femcare UK sales to COO.

Domestic U.S. sales in 2013 were \$18,965 (47% of total sales) compared to \$19,961 (48% of total sales) in 2012 and \$18,853 (50% of total sales) in 2011. The decrease in 2013 was due in part to a \$570 decrease in Filshie Clip System sales to COO after overstocking in 2012. Sales to COO were \$3,313 (8.2% of total sales) in 2013, \$3,883 (9.3% of total sales) in 2012 and \$2,953 (7.8% of total sales) in 2011. Sales in 2011 were for a partial year after the March 2011 Femcare acquisition. COO, which has met or exceeded its past forecasts, has forecasted its purchases from UTMD in 2014 will be about the average between 2012 and 2013, about \$3,560.

The other primary cause of \$996 net lower 2013 domestic sales was \$832 lower sales of neonatal products to domestic users. The decline in sales of domestic neonatal products was due to increased supplier competition in the NICU space, lower NICU utilization of specialty devices and tightening of compliance under GPO contracts by U.S. hospitals. In contrast, sales of neonatal products to international customers increased 16% (\$212). Other domestic end user product sales were up \$209. Also helping offset the lower COO and domestic neonatal product sales were UTMD's domestic OEM sales, which were up 11% (\$178).

International sales in 2013 were \$21,528 compared to \$21,591 in 2012 and \$19,007 in 2011. International sales were 53% of global consolidated sales in 2013, 52% in 2012 and 50% in 2011. In addition to the benefit of a higher sales volume to absorb the overhead costs of its critical infrastructure, a significant benefit of the Femcare acquisition for UTMD was the geographic diversification of sales outside the U.S. UTMD sold devices to 351 international distributors in 2013. In addition to a greater number of overseas sales distribution entities, UTMD will continue to better cross-utilize distributors previously representing one or the other of Femcare or UTMD, but this integration project continues somewhat slowly as distributors evaluate and learn about the other specialized products relative to their individual market needs, and UTMD adjusts its distribution agreements. As a measure of better utilization of existing distributors, in 2013 UTMD sold more than \$5,000 worth of devices to 188 international distributors compared to 174 in 2012 and 148 in 2011.

Of the 2013 international sales, 42% were to customers in Europe compared to 43% in 2012 and 41% in 2011. Femcare UK and Femcare AUS shipped 42% and 14% of UTMD's total international sales, respectively, in 2013, compared to 42% and 16% in 2012. A weak AUD accounted for the decline in USD terms. UTMD's Ireland subsidiary (UTMD Ltd.) shipped 20% of total international sales in USD terms in 2013, compared to 17% in 2012 and 14% in 2011. The increase is due to direct domestic sales in Ireland of devices previously sold to distributors in Ireland from the U.S. or UK, and international sales to customers outside of the UK and Ireland of products now manufactured by UTMD Ltd in Ireland instead of by Femcare UK suppliers. While the standard of living in the U.S. continues to decline and government intervention in the U.S. health care market continues to increase, UTMD expects sales growth in emerging markets internationally will continue to outpace domestic medical device sales growth.

UTMD groups its sales into four general product categories: 1) obstetrics, comprised of labor and delivery management tools for monitoring fetal and maternal well-being, for reducing risk in performing difficult delivery procedures and for improving clinician and patient safety; 2) gynecology/ electrosurgery/ urology, comprised of tools for gynecological procedures associated primarily with cervical/ uterine disease including LETZ, endometrial tissue sampling, transvaginal uterine sonography, diagnostic laparoscopy, surgical contraception and other MIS procedures; specialty excision and incision tools; conservative urinary incontinence therapy devices; and urology tools; 3) neonatal critical care, comprised of devices that provide developmentally-friendly care to the most critically ill babies, including providing vascular access, enteral feeding, administering vital fluids, maintaining a neutral thermal environment, providing protection and assisting in specialized applications; and 4) blood pressure monitoring/ accessories/ other, comprised of specialized components as well as molded parts and assemblies sold on an OEM basis to other companies. In these four categories, UTMD's primary revenue contributors enjoy a significant brand awareness by clinical users.

Global revenues by product category:

|  | 2013      | %   | 2012      | %   | 2011      | %   |
|--|-----------|-----|-----------|-----|-----------|-----|
| Obstetrics                                       | \$ 5,085  | 12  | \$ 5,194  | 12  | \$ 5,742  | 15  |
| Gynecology/<br>Electrosurgery/ Urology           | 22,687    | 56  | 23,142    | 56  | 19,196    | 51  |
| Neonatal   | 5,920     | 15  | 6,539     | 16  | 6,951     | 18  |
| Blood Pressure<br>Monitoring and<br>Accessories* | 6,801     | 17  | 6,677     | 16  | 5,971     | 16  |
| Total:   | \$ 40,493 | 100 | \$ 41,552 | 100 | \$ 37,860 | 100 |

\*includes molded components and finished medical and non-medical devices sold to OEM customers.

International revenues by product category:

|            | 2013   | % | 2012   | % | 2011   | % |
|------------|--------|---|--------|---|--------|---|
| Obstetrics | \$ 579 | 3 | \$ 600 | 3 | \$ 809 | 4 |

Edgar Filing: UTAH MEDICAL PRODUCTS INC - Form 10-K

|  |                  |            |                  |            |                  |            |
|--|------------------|------------|------------------|------------|------------------|------------|
| Gynecology/<br>Electrosurgery/ Urology           | 15,037           | 70         | 15,273           | 71         | 12,856           | 68         |
| Neonatal   | 1,550            | 7          | 1,339            | 6          | 1,346            | 7          |
| Blood Pressure<br>Monitoring and<br>Accessories* | 4,362            | 20         | 4,379            | 20         | 3,996            | 21         |
| <b>Total:</b>                                    | <b>\$ 21,528</b> | <b>100</b> | <b>\$ 21,591</b> | <b>100</b> | <b>\$ 19,007</b> | <b>100</b> |

\*includes molded components and finished medical and non-medical devices sold to OEM customers.

As a summary description of revenues in the above tables:

1. Obstetrics. The 2% decline in domestic obstetrics (L&D) device sales in 2013 was the result of lower utilization of specialty devices in U.S. hospitals together with restrictive U.S. GPO administrative agreements. The \$21 decline in international obstetric product sales was due to fluctuation in distributor order patterns.
2. The gynecology/ electrosurgery/ urology (ES/Gyn) product category, which includes all of Femcare's products, were \$456 (2%) lower in 2013 compared to 2012. The decline is explained by \$570 lower Femcare UK Filshie Clip System sales to COO, which are included in domestic sales, and the lack of a repeat large order for electrosurgery equipment and supplies in 2013 from a Far East customer which was \$621 in 2012 sales, which were included in international sales.
3. Neonatal intensive care unit (NICU) device sales were 16% lower in the U.S., but 16% higher internationally. The decline in sales of domestic neonatal products was due to increased supplier competition in the NICU space, lower NICU utilization of specialty devices and tightening of compliance under GPO contracts by U.S. hospitals.
4. U.S. domestic blood pressure monitoring and accessories (BPM) sales increased 6%, while international BPM sales stayed about the same despite overstocking by UTMD's second largest distributor in 2012. UTMD's second largest customer, Beijing SAK, purchased \$1.6 million of Deltran blood pressure monitoring kits from UTMD Ltd (Ireland) in 2013 for use in China, compared to \$2.0 million in 2012 and \$1.7 million in 2011. This product category also includes molded components and assemblies (some of which are not related to medical devices) sold to other companies (OEM customers) for use in their products. The U.S. increase was due primarily to a \$131 increase in disposable pressure transducer OEM sales.

Looking forward to 2014, UTMD expects good growth in Filshie Clip System sales, both domestically to COO and internationally. However, UTMD's two largest customers for BPM kits manufactured in Ireland have not yet provided an annual forecast for 2014, which suggests that 2014 international BPM sales to those two distributors, which combined were \$2.1 million in 2013, may be substantially lower. UTMD also expects that neonatal and obstetric device sales in the U.S. will likely continue to decline based on the difference in sales in 1Q 2013 compared to 4Q 2013, and the ongoing domestic market pressures on specialty devices. Helping offset the lower domestic neonatal and obstetric product sales will be continued growth in UTMD's domestic urology product sales and domestic OEM product sales. UTMD also expects continued international sales growth in neonatal product and electrosurgery product sales. Internationally, the UK domestic market has also been weak. In addition, the recent currency translation rate of the AUD compared to the USD is 7% lower than the average conversion rate for 2013. If the current USD/AUD exchange rate remains for the year, sales expressed in USD terms in Australia will be significantly lower again in 2014. In addition to the 2014 uncertainty with respect to the large international BPM product distributors, because of the substantial percentage of UTMD sales in foreign currencies, USD-denominated sales can vary several percentage points higher or lower based on unpredictable changes in foreign currency exchange rates during the year. In brief summary, UTMD expects 2014 global consolidated sales to be about the same as in 2013.

b) Gross Profit. UTMD's 2013 consolidated gross profit, the surplus after subtracting costs of manufacturing, including purchasing raw materials, forming components, assembling, inspecting, testing, packaging, sterilizing and shipping products, from net revenues, was \$24,273 compared to \$25,307 in 2012 and \$22,400 in 2011. Average gross profit margins (GPMs), gross profits expressed as a percentage of net sales, were 59.9% in 2013 compared to 60.9% in 2012 and 59.2% in 2011. The decline in 2013 compared to 2012 was due to a less favorable product mix, as growth in sales came from lower profit margin sales in international and domestic OEM sales channels, and revenue declines largely came from domestic direct sales channels with typically higher gross margins. Although raw material costs did experience about 3% inflation, a little more than expected, and fixed labor and overhead costs had to be absorbed on less revenue, the difference between management's beginning of year projection of a 60.2% GPM can be explained by a 25% increase in health plan expenses in the U.S. and a 17% increase in Ireland. In USD terms, health plan expenses

increased more than \$200, representing half of the one percentage point lower GPM.

Ireland subsidiary gross profits in Euros were €1,189 in 2013 compared to €827 in 2012 and €289 in 2011. The associated GPMs were 35.3% in 2013, 27.9% in 2012 and 14.9% in 2011. The increasing GPM is due to 1) UTMD Ltd in Ireland directly selling devices to Ireland domestic clinical users that were manufactured by other UTMD subsidiaries, instead of the other subsidiaries selling through distributors in Ireland, 2) UTMD Ltd in Ireland directly selling devices to international customers previously purchased from outside vendors by Femcare UK and sold by Femcare UK that are now manufactured and sold by UTMD Ltd in Ireland, and 3) increased intercompany sales (which absorb fixed overhead costs) from manufacturing products previously purchased from outside vendors by Femcare for direct customer sales in the UK and Australia. This represents the realization of some of the synergy expected from the acquisition of Femcare in 2011.

Femcare UK gross profits in GBP were £5,851 in 2013 compared to £6,116 in 2012 and £4,627 in 2011. The 2013 UK GP was negatively affected by £317 lower sales to COO, £300 lower domestic UK sales and transfer of sales to UTMD Ireland for products now manufactured in Ireland. The associated Femcare UK GPMs were 67.1% in 2013, 67.2% in 2012 and 66.0% in 2011.

Femcare AUS gross profits in AUD were AUD 2,006 in 2013 compared to AUD 2,074 in 2012 and AUD 1,745 in 2011. The 2013 AUS GP was negatively affected by the fact that Femcare AUS purchased its finished devices for distribution in Australia at prices fixed in either UK or U.S. currency, where manufactured. Femcare AUS products purchased from Femcare UK in GBP, were up in AUD cost by 5% in 2013. AUD prices for products purchased from UTMD in the U.S. were up 7% in 2013. The associated Femcare AUS GPMs were 62.1% in 2013, 63.6% in 2012 and 62.6% in 2011.

In the U.S., gross profits were \$11,683 in 2013 compared to \$12,478 in 2012 and \$12,697 in 2011. The associated GPMs were 53.4% in 2013, 55.9% in 2012 and 56.6% in 2011.

In 2014, UTMD expects lower gross profits in the U.S. and Australia, and higher gross profits in Ireland and the UK. If consolidated 2014 sales are about the same as in 2013, management expects that 2014 gross profits will be about the same, with an average GPM of about 60%. Lower domestic direct U.S. sales, higher U.S. employee salaries and benefit costs, including especially health care costs, will continue to pressure U.S. GPMs. The AUD has already weakened another 7% relative to the average USD/AUD and GBP/AUD average exchange rates in 2013. Since the prices paid by Femcare Australia for finished devices are fixed in the currency of the UTMD subsidiary which manufactures them, a similar decline in GP that occurred in 2013 is expected for Australia GP in 2014. On the other side of the coin, UK gross profits will benefit from higher Filshie Clip System sales in 2014 and cost savings from additional products manufactured by UTMD Ireland that were previously purchased from external vendors. Despite a possible substantial decline in low margin BPM international distributor sales, UTMD Ireland gross profits should be up as a result of planned manufacturing and shipping directly of additional Femcare devices.

c) Operating Income. Operating income is the surplus after operating expenses are subtracted from gross profits. Operating expenses include sales and marketing (S&M) expenses, product development (R&D) expenses and general and administrative (G&A) expenses. Consolidated operating expenses were \$9,445 in 2013, compared to \$10,111 in 2012 and \$10,558 in 2011. The following table provides a comparison of operating expense categories for the last three years.

|                                   | 2013     | 2012      | 2011      |
|-----------------------------------|----------|-----------|-----------|
| S&M expenses excluding the MDET   | \$ 2,500 | \$ 2,711  | \$ 2,815  |
| S&M expense – MDET                | 290      | 0         | 0         |
| R&D expenses                      | 491      | 563       | 518       |
| G&A expenses:                     |          |           |           |
| a ) litigation reserve provision  | 80       | 250       | 186       |
| b ) corporate legal               | 27       | 23        | 65        |
| c ) stock option compensation     | 28       | 70        | 95        |
| d ) management bonus accrual      | 267      | 638       | 840       |
| e ) outside accounting audit/tax  | 166      | 238       | 220       |
| f ) intangible asset amortization | 2,584    | 2,613     | 2,067     |
| g ) acquisition expenses          | 5        | 0         | 341       |
| h ) all other G&A expenses        | 3,007    | 3,004     | 3,411     |
| G&A expenses – total              | 6,164    | 6,836     | 7,225     |
| Total operating expenses          | \$ 9,445 | \$ 10,111 | \$ 10,558 |
| Operating expenses % of sales:    | 23.3 %   | 24.3 %    | 27.9 %    |



Consolidated operating income in 2013 was \$14,828 compared to \$15,196 in 2012 and \$11,842 in 2011. UTMD's consolidated operating income margin (OIM), consolidated operating income divided by total sales, was 36.6% in both 2013 and 2012, compared to 31.3% in 2011. The UTMD Ltd (Ireland subsidiary) OIM in 2013 was 25.7% compared to 17.8% in 2012 and 3.7% in 2011. Femcare UK's 2013 OIM was 37.7% compared to 36.5% in 2012 and 27.0% in 2011. Femcare AUS's 2013 OIM was 27.5% compared to 24.3% in 2012 and 21.9% in 2011. UTMD U.S. OIM in 2013 was 35.4% compared to 38.1% in 2012 and 36.4% in 2011.

Looking forward to 2014, UTMD projects its consolidated OIM will be about 37%.

i) S&M expenses: S&M expenses are the costs of communicating UTMD's differences and product advantages, providing training and other customer service in support of the use of UTMD's solutions, attending clinical meetings and medical trade shows, administering customer agreements, advertising, processing orders, shipping, paying commissions to outside representatives and funding GPO fees. In markets where UTMD sells directly to end-users, which in 2013 was the U.S., Ireland, UK and Australia, the largest component of S&M expenses is the cost of employing direct sales representatives, including associated costs of travel, subsistence and communications. The trade-off between higher gross profit margins for selling directly at end-user prices is higher S&M expenses as a percent of sales.

S&M expenses include all customer support costs including training. In general, training is not required for UTMD's products 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 third party purchasing organization agreements in the U.S. and UK under which it agrees to provide hospital members in-service and clinical training as required and reasonably requested.

UTMD promises prospective customers that it will provide, at no charge in reasonable quantities, copies of videotapes and other instruction materials developed for the use of its products. UTMD provides customer support from offices in the U.S., Ireland, UK 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 in-service and training expenses are routinely expensed as they occur. Except for the consulting services of independent practitioners, all of these services are allocated from fixed S&M overhead costs included in Operating Expenses. Historically, marginal consulting costs have been immaterial to financial results, which is also UTMD's expectation for the future.

The Medical Device Excise Tax (MDET), a component of the Patient Protection and Affordable Care Act, (known commonly as Obamacare) went into effect in 2013. The excise tax is 2.3% of domestic sales of medical devices listed with the FDA. Medical devices designed for human use are taxed, whether or not they are sold for human use, e.g. veterinarian uses or laboratory use are also taxed. The justification for the tax given by lawmakers was that medical device companies will enjoy greater sales as a result of Obamacare, and they therefore should share in subsidizing the cost of Obamacare. The evidence from UTMD's perspective is the opposite: fewer of UTMD's physician preference devices are being used as U.S. hospitals struggle to hold costs down under Obamacare. The impact of the tax is felt beyond 2.3%, as costs associated with administering, tracking, collecting, and paying the tax are significant. Direct MDET expenses in 2013 were \$290, included in S&M expenses.

As a percent of total sales, S&M operating expenses (excluding the MDET) were 6.2% in 2013 compared to 6.5% in 2012 and 7.4% in 2011. S&M expenses in 2013 were 6.9% of sales including the MDET. S&M expenses are expected to be about \$250 lower in 2014 because of lower MDET resulting from lower domestic direct sales and S&M cost savings from converting from a third party S&M service provider as of December 2013 to UTMD's own employees in Australia. The resulting total 2014 S&M expenses are expected to be between 6.0% and 6.2% of consolidated sales in 2014.

ii) R&D expenses: R&D expenses include the costs of investigating clinical needs, developing innovative concepts, testing concepts for viability, validating methods of manufacture, completing any necessary premarketing clinical trials, regulatory documentation and other activities required for design control, responding to customer requests for product enhancements, and assisting manufacturing engineering on an ongoing basis in developing new processes or improving existing processes. As a percent of sales, R&D expenses were 1.2% in 2013 compared to 1.4% in both 2012 and 2011. UTMD will continue to opportunistically invest in R&D. In 2014, R&D expenses as a percentage of

sales are expected to be consistent with years before 2013.

iii) G&A expenses: G&A expenses include the “front office” functional costs of executive management, finance and accounting, corporate information systems, human resources, shareholder relations, corporate risk management, corporate governance, protection of intellectual property, amortization of identifiable intangibles and legal costs. Prior to December 2013, Femcare and UTMD retained a third party service provider in Australia to also manage G&A functions for Femcare Australia.

As a percent of total sales, G&A operating expenses were 15.2% in 2013 compared to 16.5% in 2012 and 19.1% in 2011. The G&A expense reductions in 2013 were primarily in litigation expense and management bonus accrual to offset the surge in medical costs for U.S. and Ireland employees. (See table above.) UTMD expects to gain substantial savings of about \$300 in AUS G&A expenses in 2014 by managing the AUS subsidiary with its own employees. As a result, UTMD projects G&A expenses in the range of 15.4% to 15.6% of sales in 2014, assuming it can control G&A expenses in the other subsidiaries to be consistent with 2013.

In summary, in 2014, UTMD expects a consolidated gross margin about 60% and operating expenses about 23%, yielding a target operating profit margin of 37%. If successful in achieving its sales, gross profits and operating expense targets stated above, the resulting OPM of about 37% would yield operating income about the same as in 2013.

d) Non-operating Income, Non-operating Expense and EBT. Non-operating income (NOI) includes royalties from licensing UTMD's technology, rent from leasing underutilized property to others, income earned from investing the Company's excess cash and gains or losses from the sale of assets, offset by non-operating expenses (NOE) which include interest on bank loans, bank service fees and excise taxes.

Net NOE (combination of NOE and NOI) was \$352 in 2013 compared to \$659 in 2012 and \$762 in 2011. The largest portion of 2013 NOE was \$438 interest expense on bank loans. All the other components of 2013 NOE/NOI summed to \$85 in net NOI. UTMD estimates Net NOE in 2014 will be about \$202, a decrease of \$150 from 2013 due primarily to lower interest expense as bank loans are paid down.

1) Interest Expense. In 2013, UTMD paid \$438 in interest expense on the Femcare loans, compared to \$652 in 2012 and \$859 in 2011. Both 2012 and 2011 included interest on a loan in Ireland, which was paid off in late 2012. The Ireland loan of €4,500 (\$5,336) in December 2005 allowed the repatriation of profits generated by UTMD's Ireland subsidiary since inception in 1996 through 2005. The non-Ireland interest expense resulted from borrowing £8,000 (\$12,934) in the UK and \$14,000 in the U.S. in March 2011 for the purchase of Femcare. Please see note 7 below. Due to decreasing loan principal balances on the Femcare acquisition loans, UTMD estimates that its interest expense will be about \$285 in 2014.

2) Investment of excess cash. Investment income (including gains and losses on sales) in 2013 was \$7, compared to \$10 in 2012 and \$17 in 2011. Cash in the U.S. is generally currently held in non-interest bearing bank accounts because avoiding the bank operating fees which would result from lower balances more than offsets the interest that can be earned at current interest rates. UTMD estimates investment income will also be \$10 in 2014.

3) Royalties. Femcare receives a royalty from licensing the use of the Filshie Clip intangibles to COO as part of its U.S. exclusive distribution agreement. Royalties in 2013 were \$90 compared to \$89 in 2012 and \$71 in 2011. UTMD expects to receive about \$92 in Filshie royalties in 2014. Presently, there are no arrangements under which UTMD is receiving royalties from other parties.

4) Other NOI. Income received from renting unused warehouse space in Ireland and parking lot space in Utah for a cell phone tower, offset by bank fees and non-MDET excise taxes, was \$(11) in 2013, \$71 in 2012 and \$10 in 2011. In 2012, UTMD recognized a tax-effected \$177 impairment on its Citigroup stock investment, resulting in a net Other NOI loss of \$106 (i.e., a NOE). UTMD expects Other NOI will be about \$(19) in 2014.

Income before Taxes (EBT) result from subtracting non-operating expense from operating income. Consolidated EBT was \$14,476 in 2013 compared to \$14,537 in 2012 and \$11,080 in 2011. EBT margin is EBT divided by total sales. UTMD's consolidated EBT margin was 35.7% in 2013, 35.0% in 2012 and 29.3% in 2011. The EBT of UTMD Ltd. (Ireland) was €854 in 2013, €575 in 2012 and €76 in 2011. The respective EBT margins of UTMD Ltd. (Ireland) were 25.4% in 2013, 19.4% in 2012 and 4.0% in 2011. Femcare UK's 2013 EBT was £3,175 compared to £3,146 in 2012 and £1,567 in 2011; UK EBT margins were 36.4% in 2013, 34.6% in 2012 and 23.3% in 2011. Femcare AUS's 2013 EBT was AUD 894 compared to AUD 800 in 2012 and AUD 619 in 2011; AUS EBT margins were 27.7% in 2013, 24.5% in 2012 and 22.2% in 2011.

UTMD is targeting consolidated 2014 EBT in the range of \$14.6 to \$14.9 million, about a 2% increase compared to 2013 EBT.



e) Net Income, EPS and ROE. Net income is EBT minus income taxes, often called the “bottom line”. Net income was \$11,406 in 2013, \$10,169 in 2012 and \$7,414 in 2011. The 2013 net income includes a \$976 reduction to the 2013 income tax provision as a result of a deferred tax liability (DTL) adjustment. The DTL was adjusted in compliance with U.S. GAAP by the entire impact of lower future UK corporate tax rates over the remaining almost 12 years of Femcare identifiable intangible asset amortization. The \$976 reduction in income tax provision increased net income by that same amount. Without the DTL adjustment, 2013 net income would have been \$10,430. The effective consolidated corporate income tax provision rate was 21.2% in 2013 (28.0% without the DTL adjustment), 30.0% in 2012 and 33.1% in 2011. Year to year fluctuations in the tax rate will result from variation in EBT contribution from subsidiaries in jurisdictions with different corporate income tax rates. Femcare in the UK had an income tax rate of 24% in 1Q 2013 and a rate of 23% for the last three quarters of 2013. The UK income tax rate of 23% will decline to 21% as of April 1, 2014 and then to 20% as of April 1, 2015. The income tax rate for Femcare Australia has been and will remain at 30%. Profits of the Ireland subsidiary are taxed at a 12.5% rate on exported manufactured products, and a 25% rate on rental and other types of income including income from domestic sales. EBT contribution of UTMD U.S. operations are currently taxed at a 39% combined Federal and State rate prior to special U.S. tax exclusions such as the manufacturing profit deduction, accelerated depreciation of certain assets and R&D tax credit. Higher marginal income tax rates would apply for EBT in the U.S. above \$10 million. The possibility of lower corporate income tax rates in the U.S. is not anticipated in UTMD’s projection for 2014. Management expects the 2014 consolidated average income tax provision rate to be slightly lower than the 28.0% unadjusted 2013 rate due to a further reduction in the UK tax rate.

UTMD’s net income margin (NIM), net income expressed as a percentage of sales, was 28.2% in 2013 (25.8% prior to the DTL adjustment), 24.5% in 2012 and 19.6% in 2011. UTMD projects its 2014 NIM will be around 26%. UTMD’s profitability has consistently ranked it in the top performance tier of all U.S. publicly-traded companies, and has been the primary driver for excellent returns on stockholders’ equity (ROE).

Earnings per share (EPS) is net income 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). Diluted EPS were \$3.022 in 2013 (\$2.763 prior to the DTL adjustment), \$2.740 in 2012 and \$2.034 in 2011. If UTMD achieves the projections above, EPS in 2014 will be in the range of \$2.78 - \$2.83/ share.

In summary, management expects revenues, gross profits and operating income about the same in 2014 as they were in 2013, with EBT up about 2%. Net income and EPS are also projected to be up about 2% compared to 2013 net income and EPS prior to the \$976 DTL adjustment.

The 2013-ending weighted average number of diluted common shares (the number used to calculate diluted EPS) was 3,775 (in thousands), compared to 3,711 shares in 2012 and 3,645 shares in 2011. Dilution for “in the money” unexercised options for the year 2013 was 47 shares, compared to 34 in 2012 and 14 in 2011. Actual outstanding common shares as of December 31, 2013 were 3,743.

Return on stockholders’ equity (ROE) is the portion of net income retained by UTMD (after payment of dividends) to internally finance its growth, divided by the average accumulated stockholders’ equity during the applicable time period. ROE includes balance sheet measures as well as income statement measures. ROE for 2013 was 14% (20% before payment of dividends). ROE for 2012 was 14% (22% before payment of dividends), and for 2011 was 10% (19% before payment of dividends). UTMD’s ROE is primarily driven by its high net income margin. UTMD’s 2013 ROE was lower than in 2012 because of a 22% increase in average stockholders’ equity which was offset to a large extent by the \$976 addition to net income from the DTL adjustment. UTMD’s ROE (before dividends) has averaged 29% per year over the last 27 years. This ratio determines how fast the Company can afford to grow without diluting shareholder interest. For example, a 29% ROE will financially support 29% annual growth in revenues without having to issue more stock.

Looking forward, without share repurchases, 2014 ROE may be about 17% (before dividends) since average shareholder equity is expected to be about \$7 million higher (\$10.6 million net income less \$3.7 cash dividends) and net income is expected to be about 2% higher.

#### Liquidity and Capital Resources

##### Cash Flows.

Net cash provided by operating activities, including adjustments for depreciation and other non-cash operating expenses, along with changes in working capital and the tax benefit attributable to exercise of employee incentive stock options, totaled \$12,309 in 2013, compared to \$13,563 in 2012 and \$11,365 in 2011. The largest changes in 2013 compared to 2012 were a net income increase of \$1,237, and uses of cash of \$1,090 from increasing inventories compared to decreasing the prior year and \$799 from changes in deferred income tax amounts. Other changes were generally consistent with effective working capital management and higher sales activity.

The Company's payment of \$41,084 to acquire Femcare was the most significant use of cash in 2011-2013. UTMD liquidated a net of \$14,655 of investments to help finance the acquisition. In investing activities, during 2013 UTMD used \$339 for capital expenditures, and \$5 for intangible assets. Except for cash requirements related to the acquisition, other uses of cash for investing activities were similar in all three years. The Company borrowed \$26,934 in 2011 to help finance the purchase of Femcare. In 2013, UTMD paid \$3,675 in shareholder cash dividends compared to \$3,555 during 2012.

In 2013, UTMD received \$787 and issued 40,033 shares of stock upon the exercise of employee and director stock options. Employees and directors exercised a total of 55,287 option shares in 2013, with 15,254 shares immediately being retired as a result of optionees trading the shares in payment of the exercise price of the options and related taxes. Option exercises in 2013 were at an average price of \$25.37 per share. The Company received a \$281 tax benefit from option exercises in 2013. UTMD did not repurchase any of its own shares in the open market during 2013. By comparison, in 2012, UTMD received \$1,803 and issued 78,017 shares of stock upon the exercise of employee and director stock options. Employees and directors exercised a total of 82,386 option shares in 2012, with 4,369 shares immediately being retired as a result of optionees trading the shares in payment of the exercise price of the options. Option exercises in 2012 were at an average price of \$23.56 per share. The Company received a \$178 tax benefit from option exercises in 2012. UTMD repurchased 15,000 shares of stock in the open market at a cost of \$504 during 2012, an average cost of \$33.57 per share. In 2011 UTMD received \$485 and issued 21,220 shares of stock upon the exercise of employee stock options. Option exercises in 2011 were at an average price of \$22.87 per share. UTMD did not purchase any of its own shares in the open market during 2011. UTMD received a \$34 tax benefit in 2011 from option exercises.

UTMD repaid \$3,908 on its notes payable during 2013, compared to \$9,093 during 2012 and \$5,942 in 2011. Please see note 7 for a full description of the Femcare loans obtained in 2011. All of UTMD's notes payable are scheduled to be repaid by April 2016. Cash dividends paid were \$3,675 in 2013, compared to \$3,555 in 2012 and \$3,433 in 2011. UTMD did not borrow during 2013 or 2012.

Management believes that future income from operations and effective management of working capital will provide the liquidity needed to finance internal growth plans. In an uncertain economic environment, UTMD's cash balances allow management to operate with the long-term best interest of stockholders in mind. Planned 2014 capital expenditures are expected to be less than UTMD's depreciation of current PP&E.

Management plans to utilize cash not needed to support normal operations in one or a combination of the following: 1) as a first priority, to repay the debt incurred to help finance the 2011 Femcare acquisition, 2) in general, to continue to invest at an opportune time in ways that will enhance future profitability, for example, to purchase a facility in both the UK and Australia specific to UTMD's needs that will replace leased facilities; 3) to make additional investments in new technology and/or processes; and/or 4) 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.

#### Management's Outlook.

In 2014 UTMD plans to

- 1) continue to exploit distribution and manufacturing synergies by further integrating capabilities and resources in its multinational operations;
- 2) introduce additional gynecology products helpful to clinicians through internal new product development;
- 3) continue achieving excellent overall financial operating performance;
- 4) utilize positive cash generation to pay down debt, continue cash dividends to stockholders and continue 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, including especially the MDET.

UTMD's balance sheet was strong enough in 2011 to be able to finance a substantial acquisition which met UTMD's investment criteria without issuing stock. The investment should continue to be significantly accretive to financial performance and shareholder value.

The safety, reliability and performance of UTMD's medical devices are high and represent significant clinical benefits while providing minimum total cost of care. UTMD will continue to leverage its reputation as a device innovator which will responsively take on challenges to work with clinicians who use its specialty devices. In doing so, UTMD will continue to differentiate itself, especially from commodity-oriented competitors.

UTMD is small, but its employees are experienced and remain diligent in their work. UTMD's passion is in providing innovative clinical solutions that will help reduce health risks, particularly for women and their babies.

The Company has a fundamental focus to do an excellent job in meeting customers' and patients' needs, while providing stockholders with excellent returns. In 2013, the value of UTMD's stock increased 59%. This compares favorably to an increase of 38% in the NASDAQ Composite Index, an increase of 30% in the S&P 500 Index and a 26% increase in the Dow Jones Industrial Average. Taking a longer term view, as of the end of 2013 from the end of 1998, the NASDAQ Composite Index was up 91%, the S&P 500 Index was up 40% and the DJIA was up 81%. In comparison, UTMD's share price increased 771% over that same fifteen year time span (16% annually compounded increase per year). If additional returns to stockholders from cash dividends are added, shareholder value increased 910% (17% per year). Combining share price appreciation as a result of a long term profitable financial performance with steadily growing quarterly cash dividends paid to stockholders since 2004, longer term UTMD stockholders have certainly experienced excellent returns. Management is committed to continue that performance.

#### Off Balance Sheet Arrangements

None

#### Contractual Obligations

The following is a summary of UTMD's significant contractual obligations and commitments as of December 31, 2013. Long-term debt obligations are comprised of future payments required to pay off the Femcare notes:

| Contractual Obligations and<br>Commitments | Total     | 2014     | 2015-<br>2016 | 2017-<br>2018 | 2019 and<br>thereafter |
|--|-----------|----------|---------------|---------------|------------------------|
| Long-term debt obligations                 | \$ 9,551  | \$ 4,349 | \$5,202       | \$-           | \$ -                   |
| Operating lease obligations                | 1,082     | 222      | 127           | 92            | 641                    |
| Purchase obligations                       | 2,109     | 1,985    | 124           | -             | -                      |
| Total                                      | \$ 12,742 | \$ 6,556 | \$5,453       | \$92          | \$ 641                 |

#### Critical Accounting Policies and Estimates

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as well as the reported amounts of revenues and expenses during the reporting period.

Management bases its estimates and judgments on historical experience, current economic and industry conditions and on various other factors that are believed to be reasonable under the circumstances. This forms the basis for making judgments about the carrying values of assets and liabilities that are not readily available from other sources.

Management has identified the following as the Company's most critical accounting policies which require significant judgment and estimates. Although management believes its estimates are reasonable, actual results may differ from these estimates under different assumptions or conditions.

**Allowance for doubtful accounts:** The majority of the Company's receivables are with U.S. hospitals and medical device distributors. Although the Company has historically not had significant write-offs of bad-debt, the possibility exists, particularly with foreign customers where collection efforts can be difficult or in the event of widespread U.S. hospital bankruptcies.

Inventory valuation reserves: The Company strives to maintain a good balance of inventory to 1) meet its customer's needs and 2) optimize manufacturing lot sizes while 3) not tying-up an unnecessary amount of the Company's capital increasing the possibility of, among other things, obsolescence. The Company believes its method of reviewing actual and projected demand for its existing inventory allows it to arrive at a fair inventory valuation reserve. While the Company has historically not had significant inventory write-offs, the possibility exists that one or more of its products may become unexpectedly obsolete for which a reserve has not previously been created. The Company's historical write-offs have not been materially different from its estimates.

### Accounting Policy Changes

The Company's management has evaluated the recently issued accounting pronouncements through the filing date of these financial statements and has determined that the application of these pronouncements will not have a material impact on the Company's financial position and results of operations.

### ITEM 7A - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company had manufacturing operations, including related assets, in the U.S. denominated in the U.S. Dollar (USD), in Ireland denominated in the Euro (EUR), and in England denominated in the British Pound (GBP). UTMD also has trading activities in the U.S. and in subsidiaries in other countries denominated in the USD, EUR, GBP and the Australian Dollar (AUD). The currencies are subject to exchange rate fluctuations that are beyond the control of UTMD. The exchange rates were .7259, .7587 and .7707 EUR per USD as of December 31, 2013, 2012 and 2011, respectively. Exchange rates were .6034, .6150 and .6436 GBP per USD as of December 31, 2013, 2012 and 2011, respectively. Exchange rates were 1.1201, 0.9621 and 0.9755 AUD per USD on December 31, 2013, 2012 and 2011, respectively. Please see note 1 in Item, 8, below under "Translation of Foreign Currencies" for more information. UTMD manages its foreign currency risk without separate hedging transactions by either invoicing customers in the local currency where costs of production were incurred, or by converting currencies as transactions occur.

ITEM 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

TABLE OF CONTENTS

|   |    |
|---|----|
| Management's Report on Internal Control Over Financial Reporting  | 32 |
| Report of Independent Registered Public Accounting Firm on Financial Statements and the Company's Internal Control Over Financial Reporting | 33 |
| Report of Independent Registered Public Accounting Firm on Financial Statements   | 35 |
| Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting  | 36 |
| Consolidated Balance Sheet  | 37 |
| Consolidated Statement of Income and Comprehensive Income   | 38 |
| Consolidated Statement of Cash Flow   | 39 |
| Consolidated Statement of Stockholders' Equity  | 40 |
| Notes to Consolidated Financial Statements  | 41 |

MANAGEMENT'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The Company's internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2013. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework.

Based on its assessment and those criteria, management believes that the Company maintained effective internal control over financial reporting as of December 31, 2013.

The Company's independent registered public accounting firm, Jones Simkins LLC, has audited the Company's internal control over financial reporting as of December 31, 2013, and its report is shown on the next page.

The Norton Practice audited the internal control over financial reporting of Femcare Group Limited as of December 31, 2013, and its report follows the report of Jones Simkins LLC.

By: /s/ Kevin L. Cornwell  
Kevin L. Cornwell  
Chief Executive Officer

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



REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders  
of Utah Medical Products, Inc.

We have audited the accompanying consolidated balance sheets of Utah Medical Products, Inc. as of December 31, 2013 and 2012, and the related consolidated statements of income and comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2013. We also have audited Utah Medical Products, Inc.'s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Utah Medical Products, Inc.'s management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the company's internal control over financial reporting based on our audits. We did not audit portions of the financial statements and we did not examine the effectiveness of internal control over financial reporting for portions of Femcare Group Limited, a wholly owned subsidiary. The portions not audited by us include assets of \$11,459,000 and \$7,890,000 as of December 31, 2013 and 2012, respectively, and total revenues of \$15,372,000, \$16,484,000, and \$13,273,000, respectively for each of the years in the three-year period ended December 31, 2013. Those portions of the statements and the effectiveness of internal control over financial reporting were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for Femcare Group Limited and the effectiveness of Femcare Group Limited's internal control over financial reporting, is based solely on the reports of the other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may



deteriorate.

33

---

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Utah Medical Products, Inc. as of December 31, 2013 and 2012, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, based on our audit and the report of the other auditors, Utah Medical Products, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

/s/ Jones Simkins LLC

JONES SIMKINS LLC

Logan, Utah

March 4, 2014

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Utah Medical Products, Inc.

We have audited the individual balance sheet of Femcare Group Limited, including its subsidiaries, as of December 31, 2013, 2012 and 2011, and the related statements of income, stockholders' equity, and cash flows for the years ended December 31, 2013 and 2012 and for the period from March 18, 2011 through December 31, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Femcare Group Ltd, including all subsidiaries, as of December 31, 2013, 2012 and 2011, and the results of its operations and its cash flows for the years ended December 31, 2013 and 2012 and for the period from March 18, 2011 through December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Femcare Group Limited's internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated 4 March 2014 expressed an unqualified opinion.

/s/ The Norton Practice

The Norton Practice  
Reading, United Kingdom

4 March 2014

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Utah Medical Products, Inc.

We have audited Femcare Group Limited, including its subsidiaries (Femcare Group), internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Femcare Group's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on Femcare Group's internal control over financial reporting based on our audit.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

An entity's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention, or timely detection of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Femcare Group Limited maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the balance sheet and the related statements of income, comprehensive income, stockholders' equity, and cash flows of Femcare Group Limited, and our report dated March 4th, 2014, expressed an unqualified opinion.

/s/ The Norton Practice

The Norton Practice  
Reading, United Kingdom

4 March 2014



UTAH MEDICAL PRODUCTS, INC.  
CONSOLIDATED BALANCE SHEET

December 31, 2013 and 2012

(In thousands)

| ASSETS  | 2013      | 2012      |
|---|-----------|-----------|
| Current assets:   |           |           |
| Cash  | \$ 14,395 | \$ 8,871  |
| Investments, available-for-sale (notes 3 and 4)   | 56        | 42        |
| Accounts and other receivables, net (note 2)  | 4,335     | 4,341     |
| Inventories (note 2)  | 4,704     | 4,353     |
| Prepaid expenses and other current assets   | 468       | 477       |
| Deferred income taxes (note 9)  | 328       | 451       |
| Total current assets  | 24,286    | 18,535    |
| Property and equipment, net (notes 5 and 12)  | 8,329     | 8,428     |
| Goodwill (note 6)   | 15,649    | 15,488    |
| Other intangible assets (note 6)  | 42,002    | 41,242    |
| Other intangible assets - accumulated amortization  | (9,556 )  | (6,758 )  |
| Other intangible assets - net (note 2)  | 32,446    | 34,484    |
| Total assets  | \$ 80,711 | \$ 76,935 |
|   |           |           |
| LIABILITIES AND STOCKHOLDERS' EQUITY  |           |           |
| Current liabilities:  |           |           |
| Accounts payable  | \$ 773    | \$ 1,000  |
| Accrued expenses (note 2)   | 2,786     | 2,821     |
| Current portion of notes payable (note 7)   | 4,052     | 4,001     |
| Total current liabilities   | 7,611     | 7,823     |
| Notes payable (note 7)  | 5,065     | 9,003     |
| Deferred tax liability - intangible assets (note 6)   | 6,510     | 7,889     |
| Other long term liabilities   | -         | 363       |
| Deferred income taxes (note 9)  | 944       | 884       |
| Total liabilities   | 20,130    | 25,963    |
| Commitments and contingencies (notes 8 and 14)  | -         | -         |
| Stockholders' equity:   |           |           |
| Preferred stock, \$.01 par value; 5,000 shares authorized, no shares issued and outstanding                   | -         | -         |
| Common stock, \$.01 par value; 50,000 shares authorized, issued 3,743 shares in 2013 and 3,703 shares in 2012 | 37        | 37        |
| Accumulated other comprehensive income  | 16        | (851 )    |
| Additional paid-in capital  | 3,278     | 2,268     |
| Retained earnings   | 57,250    | 49,519    |
| Total stockholders' equity  | 60,581    | 50,972    |
| Total liabilities and stockholders' equity  | \$ 80,711 | \$ 76,935 |

See accompanying notes to financial statements.



UTAH MEDICAL PRODUCTS, INC.  
CONSOLIDATED STATEMENT OF INCOME  
AND COMPREHENSIVE INCOME

Years ended December 31, 2013, 2012 and 2011

(In thousands, except per share amounts)

|  | 2013      | 2012      | 2011        |
|--|-----------|-----------|-------------|
| Sales, net (notes 11, 13 and 14)   | \$ 40,493 | \$ 41,552 | \$ 37,860   |
| Cost of goods sold   | 16,221    | 16,245    | 15,460      |
| Gross profit   | 24,273    | 25,307    | 22,400      |
| Operating expense:   |           |           |             |
| Sales and marketing  | 2,790     | 2,711     | 2,815       |
| Research and development   | 491       | 563       | 518         |
| General and administrative   | 6,164     | 6,836     | 7,225       |
| Operating income   | 14,828    | 15,196    | 11,842      |
| Other income (expense):  |           |           |             |
| Dividend and interest income   | 7         | 11        | 16          |
| Gains and (losses) on investments  | -         | (1 )      | 1           |
| Royalty income (note 14)   | 90        | 89        | 71          |
| Interest expense   | (438 )    | (652 )    | (859 )      |
| Other, net   | (11 )     | (106 )    | 10          |
| Income before provision for income taxes                                   | 14,476    | 14,537    | 11,080      |
| Provision for income taxes (note 9)  | 3,070     | 4,368     | 3,666       |
| Net income   | \$ 11,406 | \$ 10,169 | \$ 7,414    |
| Earnings per common share (basic) (note 1):                                | \$ 3.06   | \$ 2.77   | \$ 2.04     |
| Earnings per common share (diluted) (note 1):                              | \$ 3.02   | \$ 2.74   | \$ 2.03     |
| Other comprehensive income:  |           |           |             |
| Foreign currency translation net of taxes of \$0, \$0 and \$0              | \$ 859    | \$ 1,862  | \$ (1,628 ) |
| Unrealized gain (loss) on investments net of taxes of \$6, \$123 and \$(2) | 8         | 193       | (3 )        |
| Total comprehensive income   | \$ 12,273 | \$ 12,224 | \$ 5,783    |

See accompanying notes to financial statements.



UTAH MEDICAL PRODUCTS, INC.  
CONSOLIDATED STATEMENT OF CASH FLOW  
Years Ended December 31, 2013, 2012 and 2011  
(In thousands)

|  | 2013      | 2012      | 2011      |
|--|-----------|-----------|-----------|
| <b>Cash flows from operating activities:</b>   |           |           |           |
| Net income   | \$ 11,406 | \$ 10,169 | \$ 7,414  |
| <b>Adjustments to reconcile net income to net cash provided by operating activities:</b> |           |           |           |
| Depreciation   | 611       | 653       | 707       |
| Amortization   | 2,584     | 2,613     | 2,066     |
| (Gain) loss on investments   | -         | 177       | (6 )      |
| Provision for (recovery of) losses on accounts receivable                                | 10        | 5         | 77        |
| Loss on disposal of assets   | 6         | -         | -         |
| Deferred income taxes  | (1,399 )  | (600 )    | (549 )    |
| Stock-based compensation expense   | 28        | 70        | 95        |
| <b>(Increase) decrease in:</b>   |           |           |           |
| Accounts receivable  | 214       | 675       | 502       |
| Accrued interest and other receivables   | (241 )    | (204 )    | (31 )     |
| Inventories  | (249 )    | 841       | (624 )    |
| Prepaid expenses and other current assets  | 7         | (125 )    | 529       |
| <b>Increase (decrease) in:</b>   |           |           |           |
| Accounts payable   | (216 )    | 50        | (1,213 )  |
| Accrued expenses   | (27 )     | (570 )    | 2,158     |
| Deferred revenue   | (83 )     | (100 )    | (66 )     |
| Other liability  | (339 )    | (91 )     | 307       |
| Net cash provided by operating activities  | 12,309    | 13,563    | 11,365    |
| <b>Cash flows from investing activities:</b>   |           |           |           |
| <b>Capital expenditures for:</b>   |           |           |           |
| Property and equipment   | (339 )    | (254 )    | (247 )    |
| Intangible assets  | (5 )      | (1 )      | (10 )     |
| Purchases of investments   | -         | -         | (500 )    |
| Proceeds from the sale of investments  | -         | 47        | 15,155    |
| Net cash paid in acquisition   | -         | -         | (41,084 ) |
| Net cash provided by (used in) investing activities                                      | (344 )    | (208 )    | (26,685 ) |
| <b>Cash flows from financing activities:</b>   |           |           |           |
| Proceeds from issuance of common stock - options   | 787       | 1,803     | 485       |
| Common stock purchased and retired   | -         | (504 )    | -         |
| Payment of taxes for exchange of stock options   | (85 )     | -         | -         |
| Tax benefit attributable to exercise of stock options                                    | 281       | 178       | 34        |
| Proceeds from notes payable  | -         | -         | 26,934    |
| Repayments of notes payable  | (3,908 )  | (9,093 )  | (5,942 )  |
| Dividends paid   | (3,675 )  | (3,555 )  | (3,433 )  |
| Net cash provided by (used in) financing activities                                      | (6,600 )  | (11,171 ) | 18,078    |
| Effect of exchange rate changes on cash  | 160       | 153       | (41 )     |

|   |           |          |          |
|---|-----------|----------|----------|
| Net increase in cash and cash equivalents | 5,524     | 2,336    | 2,717    |
| Cash at beginning of year                 | 8,871     | 6,534    | 3,818    |
| Cash at end of year                       | \$ 14,395 | \$ 8,871 | \$ 6,534 |

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:**

Cash paid during the year for:

|              |          |          |          |
|--------------|----------|----------|----------|
| Income taxes | \$ 3,971 | \$ 4,423 | \$ 2,685 |
| Interest     | 439      | 658      | 860      |

See accompanying notes to financial statements.

UTAH MEDICAL PRODUCTS, INC.  
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY  
Years Ended December 31, 2013, 2012 and 2011  
(In thousands)

|   | Common<br>Shares | Stock<br>Amount | Additional<br>Paid-in<br>Capital | Accumulated<br>Other<br>Comprehensive<br>Income | Retained<br>Earnings | Total<br>Stockholders'<br>Equity |
|---|------------------|-----------------|----------------------------------|---|----------------------|----------------------------------|
| Balance at December 31, 2010  | 3,619            | \$36            | \$107                            | \$ (1,275 )                                     | \$38,924             | \$ 37,792                        |
| Shares issued upon exercise of employee stock options for cash                    | 21               | 0               | 485                              | -   | -                    | 485                              |
| Tax benefit attributable to appreciation of stock options                         | -                | -               | 34                               | -   | -                    | 34                               |
| Stock option compensation expense   | -                | -               | 95                               | -   | -                    | 95                               |
| Foreign currency translation adjustment   | -                | -               | -                                | (1,628 )  | -                    | (1,628 )                         |
| Unrealized holding gain (loss) from investments, available-for-sale, net of taxes | -                | -               | -                                | (3 )  | -                    | (3 )                             |
| Common stock dividends  | -                | -               | -                                | -   | (3,433 )             | (3,433 )                         |
| Net income  | -                | -               | -                                | -   | 7,414                | 7,414                            |
| Balance at December 31, 2011  | 3,640            | \$36            | \$721                            | \$ (2,906 )                                     | \$42,904             | \$ 40,757                        |
| Shares issued upon exercise of employee stock options for cash                    | 82               | 1               | 1,940                            | -   | -                    | 1,941                            |
| Shares received and retired upon exercise of stock options                        | (4 )             | (0 )            | (138 )                           | -   | -                    | (138 )                           |
| Tax benefit attributable to appreciation of stock options                         | -                | -               | 178                              | -   | -                    | 178                              |
| Stock option compensation expense   | -                | -               | 70                               | -   | -                    | 70                               |
| Common stock purchased and retired  | (15 )            | (0 )            | (503 )                           | -   | -                    | (504 )                           |
| Foreign currency translation adjustment   | -                | -               | -                                | 1,862   | -                    | 1,862                            |
| Unrealized holding gain (loss) from investments, available-for-sale, net of taxes | -                | -               | -                                | 193   | -                    | 193                              |
| Common stock dividends  | -                | -               | -                                | -   | (3,555 )             | (3,555 )                         |
| Net income  | -                | -               | -                                | -   | 10,169               | 10,169                           |
| Balance at December 31, 2012  | 3,703            | \$37            | \$2,268                          | \$ (851 )                                       | \$49,519             | \$ 50,972                        |
| Shares issued upon exercise of employee stock options for cash                    | 55               | 1               | 1,402                            | -   | -                    | 1,403                            |

|   |       |      |         |       |          |           |
|---|-------|------|---------|-------|----------|-----------|
| stock options for cash  |       |      |         |       |          |           |
| Shares received and retired upon exercise of stock options                        | (15 ) | (0 ) | (701 )  | -     | -        | (701 )    |
| Tax benefit attributable to appreciation of stock options                         | -     | -    | 281     | -     | -        | 281       |
| Stock option compensation expense   | -     | -    | 28      | -     | -        | 28        |
| Common stock purchased and retired  | -     | -    | -       | -     | -        | -         |
| Foreign currency translation adjustment   | -     | -    | -       | 859   | -        | 859       |
| Unrealized holding gain (loss) from investments, available-for-sale, net of taxes | -     | -    | -       | 8     | -        | 8         |
| Common stock dividends  | -     | -    | -       | -     | (3,675 ) | (3,675 )  |
| Net income  | -     | -    | -       | -     | 11,406   | 11,406    |
| Balance at December 31, 2013  | 3,743 | \$37 | \$3,278 | \$ 16 | \$57,250 | \$ 60,581 |

See accompanying notes to financial statements.

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

## Note 1 – Summary of Significant Accounting Policies

### Organization

Utah Medical Products, Inc. and its wholly owned subsidiaries, Femcare Holdings Ltd, with headquarters located in Romsey, Hampshire, England, and Utah Medical Products Ltd., which operates a manufacturing facility in Athlone, Ireland, (the Company) are in the primary business of developing, manufacturing and marketing specialized medical devices for the healthcare industry. The Company's broad range of products includes those used in critical care areas and the labor and delivery departments of hospitals, as well as outpatient clinics and physicians' offices. Products are sold in domestic U.S. and international markets.

### Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although actual results could differ from those estimates, management believes it has considered and disclosed all relevant information in making its estimates that materially affect reported performance and current values.

### Principles of Consolidation

The consolidated financial statements include those of the Company and its subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

### Cash and Cash Equivalents

For purposes of the consolidated statement of cash flows, the Company considers cash on deposit and short-term investments with original maturities of three months or less to be cash and cash equivalents.

### Investments

The Company classifies its investments as "available for sale." Securities classified as "available for sale" are carried in the financial statements at fair value. Realized gains and losses, determined using the specific identification method, are included in operations; unrealized holding gains and losses are reported as a separate component of accumulated other comprehensive income. Declines in fair value below cost that are other than temporary are included in operations. As of December 31, 2013 the Company's investments are in Citigroup (C).

### Concentration of Credit Risk

The primary concentration of credit risk consists of trade receivables. In the normal course of business, the Company provides credit terms to its customers. Accordingly, the Company performs ongoing credit evaluations of its customers and maintains allowances for possible losses which, when realized, have been within the range of management's expectations as reflected by its reserves.

The Company's customer base consists of hospitals, medical product distributors, physician practices and others directly related to healthcare providers, as well as other manufacturing companies. Although the Company is affected

by the well-being of the global healthcare industry, management does not believe significant trade receivable credit risk exists at December 31, 2013 except under an extreme global financial crisis.

The Company maintains its cash in bank deposit accounts in addition to Fidelity Investment accounts. The Company has not experienced any losses in such accounts and believes it is not exposed to a significant credit risk on cash and cash equivalent balances.

## Note 1 – Summary of Significant Accounting Policies (continued)

## Accounts Receivable

Accounts receivable are amounts due on product sales and are unsecured. Accounts receivable are carried at their estimated collectible amounts. Credit is generally extended on a short-term basis; thus accounts receivable do not bear interest although a finance charge may be applied to such receivables that are past the due date. Accounts receivable are periodically evaluated for collectibility based on past credit history of customers. Provisions for losses on accounts receivable are determined on the basis of loss experience, known and inherent risk in the account balance and current economic conditions (see note 2).

## Inventories

Finished products, work-in-process, raw materials and supplies inventories are stated at the lower of cost (computed on a first-in, first-out method) or market (see note 2).

## Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization are computed using the straight-line and units-of-production methods over estimated useful lives as follows:

|                                  |             |
|----------------------------------|-------------|
| Building and improvements        | 15-40 years |
| Furniture, equipment and tooling | 3-10 years  |

## Long-Lived Assets

The Company evaluates its long-lived assets in accordance with Accounting Standards Codification (ASC) 360, “Accounting for the Impairment of Long-Lived Assets.” Long-lived assets held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that their net book value may not be recoverable. When such factors and circumstances exist, the Company compares the projected undiscounted future cash flows associated with the related asset or group of assets over their estimated useful lives against their respective carrying amounts. Impairment, if any, is based on the excess of the carrying amount over the fair value of those assets and is recorded in the period in which the determination was made.

## Intangible Assets

Costs associated with the acquisition of patents, trademarks, trade names, customer relationships, regulatory approvals & product certifications, license rights and non-compete agreements are capitalized and are being amortized using the straight-line method over periods ranging from 5 to 20 years. UTMD’s goodwill is tested for impairment annually, in the fourth quarter of each year, using a fair value measurement test, in accordance with ASC 350. UTMD would also perform an impairment test, between annual tests, if circumstances changed that would more than likely reduce the fair value of goodwill below its net book value. If UTMD determined that its goodwill were impaired, a second step would be completed to measure the amount of the impairment loss. UTMD does not expect its goodwill to become impaired in the foreseeable future. Estimated future amortization expense on intangible assets currently held, using the 2013 year-end 1.6574 USD/GBP currency exchange rate, is about \$2,702 in 2014, \$2,701 in 2015, \$2,668 in 2016, \$2,652 in 2017 and \$2,644 in 2018 (see note 2).

## Revenue Recognition

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



## Note 1 – Summary of Significant Accounting Policies (continued)

## Income Taxes

The Company accounts for income taxes under ASC 740, “Accounting for Income Taxes,” whereby deferred taxes are computed under the asset and liability method.

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction, in Utah, in the United Kingdom, in Australia and in Ireland. UTMD is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2010. In 2010, the Internal Revenue Service (IRS) examined the Company’s federal income tax return for 2008 and did not propose any adjustments.

The Company recognizes interest accrued related to unrecognized tax benefits in interest expenses and any related penalties in income taxes. The Company did not recognize any tax-related interest expense or have any tax penalties in any of the three years 2011 through 2013.

## Legal Costs

The Company has been involved in lawsuits which are an expected consequence of its operations and in the ordinary course of business. The Company maintains a reserve for legal costs which are probable and estimated based on previous experience and known risk. The reserve for legal costs at December 31, 2013 and 2012 was \$148 and \$200, respectively (see note 2).

## Earnings per Share

The computation of basic earnings per common share is based on the weighted average number of shares outstanding during each year.

The computation of earnings per common share assuming dilution is based on the weighted average number of shares outstanding during the year plus the weighted average common stock equivalents which would arise from the exercise of stock options outstanding using the treasury stock method and the average market price per share during the year.

The shares (in thousands) used in the computation of the Company’s basic and diluted earnings per share are reconciled as follows:

|  | 2013  | 2012  | 2011  |
|--|-------|-------|-------|
| Weighted average number of shares outstanding – basic            | 3,728 | 3,677 | 3,631 |
| Dilutive effect of stock options                                 | 47    | 34    | 14    |
| Weighted average number of shares outstanding, assuming dilution | 3,775 | 3,711 | 3,645 |

## Presentation of Sales and Similar Taxes

Sales tax on revenue-producing transactions is recorded as a liability when the sale occurs. UTMD is not required to withhold sales tax on international sales, and at least 90% of domestic 2013 sales were to customers who are tax exempt or who are in jurisdictions where UTMD is not required to withhold sales tax.

## Stock-Based Compensation

At December 31, 2013, the Company has stock-based employee compensation plans, which are described more fully in note 10. The Company accounts for stock compensation under ASC 718, Share-Based Payment. This statement requires the Company to recognize compensation cost based on the grant date fair value of options granted to employees and directors. In 2013, the Company recognized \$28 in compensation cost compared to \$70 in 2012 and \$95 in 2011.

## Note 1 – Summary of Significant Accounting Policies (continued)

## Translation of Foreign Currencies

Assets and liabilities of the Company's foreign subsidiaries are translated into U.S. dollars at the applicable exchange rates at year-end. Net gains or losses resulting from the translation of the Company's assets and liabilities are reflected as a separate component of stockholders' equity. A negative translation impact on stockholders' equity reflects a current relative U.S. Dollar value higher than at the point in time that assets were actually acquired in a foreign currency. A positive translation impact would result from a U.S. dollar weaker in value than at the point in time foreign assets were acquired.

Income and expense items are translated at the weighted average rate of exchange (based on when transactions actually occurred) during the year.

## Note 2 – Detail of Certain Balance Sheet Accounts

|   | December 31, |           |
|---|--------------|-----------|
|   | 2013         | 2012      |
| <b>Accounts and other receivables:</b>        |              |           |
| Accounts receivable                           | \$ 3,754     | \$ 3,991  |
| Income tax receivable                         | 620          | 339       |
| Accrued interest and other                    | 103          | 142       |
| Less allowance for doubtful accounts          | (143 )       | (132 )    |
| Total accounts and other receivables          | \$ 4,334     | \$ 4,341  |
| <b>Inventories:</b>                           |              |           |
| Finished products                             | \$ 1,495     | \$ 1,630  |
| Work-in-process                               | 984          | 938       |
| Raw materials                                 | 2,225        | 1,785     |
| Total inventories                             | \$ 4,704     | \$ 4,353  |
| <b>Other intangible assets:</b>               |              |           |
| Patents                                       | \$ 2,076     | \$ 2,070  |
| Non-compete agreements                        | 166          | 163       |
| Trademarks & trade names                      | 12,102       | 11,877    |
| Customer relationships                        | 11,850       | 11,625    |
| Regulatory approvals & product certifications | 15,808       | 15,507    |
| Total other intangible assets                 | 42,002       | 41,242    |
| Accumulated amortization                      | (9,556 )     | (6,758 )  |
| Other intangible assets, net                  | \$ 32,446    | \$ 34,484 |
| <b>Accrued expenses:</b>                      |              |           |
| Income taxes payable                          | \$ 1,237     | \$ 1,382  |
| Payroll and payroll taxes                     | 1,103        | 875       |
| Reserve for litigation costs                  | 148          | 200       |
| Other   | 298          | 364       |
| Total accrued expenses                        | \$ 2,786     | \$ 2,821  |



## Note 3 – Investments

The Company's investments, classified as available-for-sale consist of the following:

|                              | December 31,<br>2013 | 2012  |
|------------------------------|----------------------|-------|
| Investments, at cost         | \$ 42                | \$ 42 |
| Equity securities:           |                      |       |
| -Unrealized holding gains    | 14                   | -     |
| -Unrealized holding (losses) | -                    | -     |
| Investments, at fair value   | \$ 56                | \$ 42 |

Changes in the unrealized holding loss on investment securities available-for-sale and reported as a separate component of accumulated other comprehensive income are as follows:

|  | December 31,<br>2013 | 2012      |
|--|----------------------|-----------|
| Balance, beginning of year   | \$ -                 | \$ (193 ) |
| Realized (gain)/loss from securities included in beginning balance | -                    | 12        |
| Gross unrealized holding gains (losses) in equity securities       | 14                   | 14        |
| Impairment loss  | -                    | 290       |
| Deferred income taxes on unrealized holding gain                   | (6 )                 | (123 )    |
| Balance, end of year   | \$ 8                 | \$ -      |

During 2013, 2012 and 2011, UTMD had proceeds from sales of available-for-sale securities of \$0, \$47 and \$15,155, respectively.

## Note 4 – Fair Value Measurements and Financial Instruments

The Company follows a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The Company uses the following valuation techniques to measure fair value for its assets and liabilities:

- Level 1 - Quoted market prices in active markets for identical assets or liabilities;
- Level 2 - Significant other observable inputs (e.g. quoted prices for similar items in active markets, quoted prices for identical or similar items in markets that are not active, inputs other than quoted prices that are observable such as interest rate and yield curves, and market-corroborated inputs);

LevelUnobservable inputs for the asset or liability, which are valued based on management's estimates of 3 - assumptions that market participants would use in pricing the asset or liability.

The following table provides financial assets carried at fair value measured as of December 31 for the past two years:

|          | Level 1 |       | Levels 2 & 3 |      | Total |       |
|----------|---------|-------|--------------|------|-------|-------|
|          | 2013    | 2012  | 2013         | 2012 | 2013  | 2012  |
| Equities | 56      | 42    | -            | -    | 56    | 42    |
| Total    | \$ 56   | \$ 42 | -            | -    | \$ 56 | \$ 42 |

None of the Company's financial instruments, which are current assets and liabilities that could be readily traded, are held for trading purposes. Detail on investments is provided in note 3 above. The Company estimates that the fair value of all financial instruments at December 31, 2013 does not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying consolidated balance sheet.

## Note 5 – Property and Equipment

Property and equipment consists of the following:

|                                  | December 31,<br>2013 | 2012      |
|----------------------------------|----------------------|-----------|
| Land                             | \$ 1,399             | \$ 1,379  |
| Buildings and improvements       | 10,662               | 10,385    |
| Furniture, equipment and tooling | 15,560               | 15,347    |
| Construction-in-progress         | 33                   | 49        |
| Total                            | 27,654               | 27,160    |
| Accumulated depreciation         | (19,325 )            | (18,732 ) |
| Property and equipment, net      | \$ 8,329             | \$ 8,428  |

Included in the Company's consolidated balance sheet are the assets of its manufacturing and administrative facilities in Utah, England, Australia and Ireland. Property and equipment, by location, are as follows:

|                                  | December 31, 2013 |         |           |          | Total     |
|----------------------------------|-------------------|---------|-----------|----------|-----------|
|                                  | Utah              | England | Australia | Ireland  |           |
| Land                             | \$ 926            | \$ -    | \$ -      | \$ 473   | \$ 1,399  |
| Building and improvements        | 5,614             | -       | -         | 5,048    | 10,662    |
| Furniture, equipment and tooling | 13,650            | 739     | 24        | 1,147    | 15,560    |
| Construction-in-progress         | 25                | 4       | 1         | 3        | 33        |
| Total                            | 20,215            | 744     | 25        | 6,671    | 27,654    |
| Accumulated depreciation         | (16,179 )         | (300 )  | (5 )      | (2,841 ) | (19,325 ) |
| Property and equipment, net      | \$ 4,036          | \$ 444  | \$ 20     | \$ 3,829 | \$ 8,329  |

|                                  | December 31, 2012 |         |          | Total     |
|----------------------------------|-------------------|---------|----------|-----------|
|                                  | Utah              | England | Ireland  |           |
| Land                             | \$ 926            | \$ -    | \$ 453   | \$ 1,379  |
| Building and improvements        | 5,589             | -       | 4,796    | 10,385    |
| Furniture, equipment and tooling | 13,664            | 691     | 992      | 15,347    |
| Construction-in-progress         | 33                | -       | 16       | 49        |
| Total                            | 20,212            | 691     | 6,257    | 27,160    |
| Accumulated depreciation         | (15,970 )         | (209 )  | (2,553 ) | (18,732 ) |
| Property and equipment, net      | \$ 4,242          | \$ 482  | \$ 3,704 | \$ 8,428  |

## Note 6 – Acquisition

On March 18, 2011, UTMD purchased all of the common shares of Femcare Holdings Ltd (Femcare) of the United Kingdom, and its subsidiaries. The acquisition was accretive to financial performance in 2013, 2012 and 2011.

A one-year measurement period was initially established during which UTMD could make residual adjustments to valuations of assets and liabilities. During 2011, residual adjustments to initial valuations for prepaid expenses, goodwill and accrued expenses were made, but no adjustment was made to the purchase price or the value of identifiable intangibles. The adjustment period has expired.

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



## Note 6 – Acquisition (continued)

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

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

## Note 7 – Long-term Debt

In March 2011, the Company obtained a \$14,000 loan from JPMorgan Chase Bank, N.A. (Chase), to help finance the purchase of Femcare. The terms and conditions of the loan require UTMD to a) repay the loan 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 a minimum threshold 20% below UTMD's TNW at closing on March 18, and g) maintain its Leverage Ratio at 2.75 to 1.00 or less. UTMD is in compliance with all of the loan financial covenants at December 31, 2013. Based on UTMD's financial position, the bank's margin was 2.00% at December 31, 2013. The principal balance on this note at December 31, 2013 was \$3,150.

In March 2011, the Company also obtained a \$12,934 loan from JP Morgan Chase, London Branch, to help finance UTMD's purchase of Femcare. Terms and conditions of the loan are the same as those listed above for the \$14,000 U.S. loan. The principal balance on this note at December 31, 2013 was \$5,967.

The following table shows estimated minimum required principal reduction of the notes during the next five years using the December 31, 2013 interest and currency exchange rates and starting with the December 31, 2013 balance of \$9,117:

Ending

| Year  | Payments | Interest | Principal | Balance  |
|-------|----------|----------|-----------|----------|
| 2014  | \$ 4,349 | \$ 297   | \$ 4,052  | \$ 5,065 |
| 2015  | 4,182    | 130      | 4,052     | 1,013    |
| 2016  | 1,020    | 7        | 1,013     | -        |
| 2017  | -        | -        | -         | -        |
| 2018  | -        | -        | -         | -        |
| Total | \$ 9,551 | \$ 434   | \$ 9,117  |          |

## Note 8 – Commitments and Contingencies

## Operating Leases

The Company has a lease agreement for land adjoining its Utah facility for a term of forty years commencing on September 1, 1991. On September 1, 2001 and subsequent to each fifth lease year, the basic rental was and will be adjusted for published changes in a price index. The Company currently leases its UK and Australia facilities, and some of the automobiles for employees in England and Ireland. Rent expense charged to operations under these operating lease agreements was approximately \$219, \$258 and \$194 for the years ended December 31, 2013, 2012 and 2011, respectively.

Future minimum lease payments under its lease obligations as of December 31, 2013 were as follows:

| Years ending December 31:           | Amount   |
|-------------------------------------|----------|
| 2014                                | \$ 222   |
| 2015                                | 83       |
| 2016                                | 44       |
| 2017                                | 46       |
| 2018                                | 46       |
| Thereafter                          | 641      |
| Total future minimum lease payments | \$ 1,082 |

## Purchase Obligations

The Company has obligations to purchase raw materials for use in its manufacturing operations. The Company has the right to make changes in, among other things, purchase quantities, delivery schedules and order acceptance. As of the end of 2013, the Company had executed a purchase agreement for a facility in Australia scheduled to close in early 2014 in the amount of \$478 before closing costs.

## Product Liability

Except for its Femcare subsidiaries, the Company is self-insured for product liability risk. "Product liability" is an insurance industry term for the cost of legal defense and possible damages awarded as a result of use of a company's product during a procedure which results in an injury of a patient. The Company maintains a reserve for product liability litigation and damages consistent with its previous long-term experience. Actual product liability litigation costs and damages during the last three reporting years have been immaterial, which is consistent with the Company's overall history. Femcare product liability indemnity limit is £5 million each claim and in the annual aggregate.

The Company absorbs the costs of clinical training and trouble-shooting in its on-going operating expenses.

## 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 December 31, 2013 or December 31, 2012.

#### Litigation

The Company has been involved in lawsuits which are an expected consequence of its operations and in the ordinary course of business. Presently, there is no litigation for which the Company believes the outcome may be material to its financial results. The Company applies its accounting policy to accrue legal costs that can be reasonably estimated.

## Note 8 – Commitments and Contingencies (continued)

## Irish Development Agency

In order to satisfy requirements of the Irish Development Agency in assisting the start-up of its Ireland subsidiary, the Company agreed to invest certain amounts and maintain a certain capital structure in its Ireland subsidiary. The effect of these financial relationships and commitments are reflected in the consolidated financial statements and do not represent any significant credit risk that would affect future liquidity.

## Note 9 – Income Taxes

Deferred tax assets (liabilities) consist of the following temporary differences:

|   | December 31, |             |         |             |
|---|--------------|-------------|---------|-------------|
|   | 2013         |             | 2012    |             |
|   | Current      | Long-term   | Current | Long-term   |
| Inventory write-downs and differences due to UNICAP | \$ 82        | \$ -        | \$ 75   | \$ -        |
| Allowance for doubtful accounts                     | 27           | -           | 22      | -           |
| Accrued liabilities and reserves                    | 57           | -           | 122     | -           |
| Other - foreign                                     | 55           | (85 )       | 119     | (86 )       |
| Depreciation and amortization                       | -            | (7,369 )    | -       | (8,687 )    |
| Unrealized investment loss                          | 107          | -           | 113     | -           |
| Deferred income taxes, net                          | \$ 328       | \$ (7,454 ) | \$ 451  | \$ (8,773 ) |

The components of income tax expense are as follows:

|          | Years ended December 31, |          |          |
|----------|--------------------------|----------|----------|
|          | 2013                     | 2012     | 2011     |
| Current  | \$ 4,266                 | \$ 4,960 | \$ 4,287 |
| Deferred | (1,196 )                 | (592 )   | (621 )   |
| Total    | \$ 3,070                 | \$ 4,368 | \$ 3,666 |

Income tax expense differed from amounts computed by applying the statutory federal rate to pretax income as follows:

|  | Years ended December 31, |         |         |
|--|--------------------------|---------|---------|
|  | 2013                     | 2012    | 2011    |
| Federal income tax expense at the statutory rate | \$2,580                  | \$2,741 | \$2,650 |
| State income taxes                               | 250                      | 266     | 257     |
| Foreign income taxes (blended rate)              | 542                      | 1,603   | 877     |
| ETI, manufacturing deduction and tax credits     | (244 )                   | (266 )  | (270)   |
| Other  | (58 )                    | 24      | 152     |
| Total  | \$3,070                  | \$4,368 | \$3,666 |

The domestic and foreign components of income before income tax expense were as follows:

Edgar Filing: UTAH MEDICAL PRODUCTS INC - Form 10-K

|          | Years ended December 31, |          |          |
|----------|--------------------------|----------|----------|
|          | 2013                     | 2012     | 2011     |
| Domestic | \$7,587                  | \$7,989  | \$7,795  |
| Foreign  | 6,889                    | 6,548    | 3,285    |
| Total    | \$14,476                 | \$14,537 | \$11,080 |

## Note 10 – Options

The Company has stock option plans which authorize the grant of stock options to eligible employees, directors and other individuals to purchase up to an aggregate of 190,978 shares of common stock, of which 90,978 are outstanding as of December 31, 2013. All options granted under the plans are granted at current market value at the date of grant, and may be exercised between six months and ten years following the date of grant. The plans are intended to advance the interest of the Company by attracting and ensuring retention of competent directors, employees and executive personnel, and to provide incentives to those individuals to devote their utmost efforts to the advancement of shareholder value. Changes in stock options were as follows:

|                                     | Shares  | Price Range<br>Per Share |          |
|-------------------------------------|---------|--------------------------|----------|
| <b>2013</b>                         |         |                          |          |
| Granted                             | 0       | \$ -                     | \$ -     |
|                                     |         | 17.71                    |          |
| Expired or canceled                 | 3,262   | -                        | 33.30    |
|                                     |         | 17.71                    |          |
| Exercised                           | 55,287  | -                        | 33.30    |
| Total outstanding at<br>December 31 | 90,978  | 18.00                    |          |
|                                     |         | -                        | 33.30    |
| Total exercisable at<br>December 31 | 76,948  | 18.00                    |          |
|                                     |         | -                        | 33.30    |
| <b>2012</b>                         |         |                          |          |
|                                     |         | 33.30                    |          |
| Granted                             | 13,000  | \$ -                     | \$ 33.30 |
|                                     |         | 24.00                    |          |
| Expired or canceled                 | 19,393  | -                        | 28.13    |
|                                     |         | 15.01                    |          |
| Exercised                           | 82,386  | -                        | 31.33    |
| Total outstanding at<br>December 31 | 149,527 | 17.71                    |          |
|                                     |         | -                        | 33.30    |
| Total exercisable at<br>December 31 | 120,420 | 17.71                    |          |
|                                     |         | -                        | 31.33    |
| <b>2011</b>                         |         |                          |          |
|                                     |         | 26.52                    |          |
| Granted                             | 67,200  | \$ -                     | \$ 26.75 |
|                                     |         | 24.00                    |          |
| Expired or canceled                 | 24,612  | -                        | 31.33    |
|                                     |         | 9.13                     |          |
| Exercised                           | 21,220  | -                        | 25.59    |
| Total outstanding at<br>December 31 | 238,306 | 15.01                    |          |
|                                     |         | -                        | 31.33    |
| Total exercisable at<br>December 31 | 172,027 | 15.01                    |          |
|                                     |         | -                        | 31.33    |

For the years ended December 31, 2013, 2012 and 2011, the Company reduced current income taxes payable and increased additional paid-in capital by \$281, \$178 and \$34, respectively, for the income tax benefit attributable to sale by optionees of common stock received upon the exercise of stock options.

## Stock-Based Compensation

In 2013, the Company recognized \$28 in equity compensation cost, compared to \$70 in 2012 and \$95 in 2011.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

|                                      | Years ended December 31, |           |           |  |
|--------------------------------------|--------------------------|-----------|-----------|--|
|                                      | 2013                     | 2012      | 2011      |  |
| Expected dividend amount per quarter | \$ n/a                   | \$ 0.2571 | \$ 0.2449 |  |
| Expected stock price volatility      |                          | 22.8 %    | 22.8 %    |  |
| Risk-free interest rate              |                          | 0.54 %    | 1.19 %    |  |
| Expected life of options             |                          | 3.8 years | 3.6 years |  |

The per share weighted average fair value of options granted during 2012 and 2011 is \$3.92 and \$3.09, respectively. No options were granted in 2013.



## Note 10 – Options (continued)

All UTMD options vest over a four-year service period. Expected dividend amounts were estimated based on the actual cash dividend rate at the time the options were granted and an estimate of future dividends based on past dividend rate changes as well as management's expectations of future dividend rates over the expected holding period of the options. Expected volatility is based on UTMD's historical volatility over recent periods of time and trends in that volatility, giving weight to more recent periods. Risk free interest rates were estimated based on actual U.S. Treasury Securities Interest rates as reported by the Federal Reserve Bank for periods of time equivalent to the holding periods estimated for the options on the dates the options were granted. Expected term of options were estimated based on historical holding periods for similar options previously granted by UTMD to employees and directors.

The following table summarizes information about stock options outstanding at December 31, 2013:

| Range of Exercise Prices | Options Outstanding |   |                                 | Options Exercisable |                                 |                                 |
|--------------------------|---------------------|---|---------------------------------|---------------------|---------------------------------|---------------------------------|
|                          | Number Outstanding  | Weighted Average Remaining Contractual Life (Years) | Weighted Average Exercise Price | Number Exercisable  | Weighted Average Exercise Price | Weighted Average Exercise Price |
| \$ 18.00-24.00           | 30,535              | 4.33  | \$ 23.23                        | 30,535              | \$ 23.23                        | \$ 23.23                        |
| 25.59-25.59              | 4,199               | 0.08  | 25.59                           | 4,199               | 25.59                           | 25.59                           |
| 26.52-33.30              | 56,244              | 5.58  | 29.78                           | 42,214              | 29.46                           | 29.46                           |
| \$ 18.00-33.30           | 90,978              | 4.91  | \$ 27.39                        | 76,948              | \$ 26.78                        | \$ 26.78                        |

## Note 11 – Geographic Information

The Company had sales in the following geographic areas based on the customer's country of domicile:

|               | 2013      | 2012      | 2011      |
|---------------|-----------|-----------|-----------|
| United States | \$ 18,965 | \$ 19,961 | \$ 18,853 |
| Europe        | 9,077     | 9,286     | 7,821     |
| Other         | 12,451    | 12,305    | 11,186    |

## Note 12 – Long-lived Assets by Geographic Area

The Company's long-lived assets by geographic area were as follows:

|               | 2013      | 2012      | 2011      |
|---------------|-----------|-----------|-----------|
| United States | \$ 11,355 | \$ 11,590 | \$ 11,885 |
| England       | 41,216    | 43,106    | 43,740    |
| Ireland       | 3,829     | 3,704     | 3,748     |
| Other         | 24        | 0         | 0         |

## Note 13 – Revenues by Product Category

The Company had revenues in the following product categories:

| Product Category                          | 2013     | 2012     | 2011     |
|---|----------|----------|----------|
| Obstetrics                                | \$ 5,085 | \$ 5,194 | \$ 5,742 |
| Gynecology/Electrosurgery/Urology         | 22,687   | 23,142   | 19,196   |
| Neonatal                                  | 5,920    | 6,539    | 6,951    |
| Blood Pressure Monitoring and Accessories | 6,801    | 6,677    | 5,971    |

#### Note 14 - Product Sale and Purchase Commitments

The Company has had license agreements for the rights to develop and market certain products or technologies owned by unrelated parties. The confidential terms of such agreements are unique and varied, depending on many factors relating to the value and stage of development of the technology licensed. Royalties on future product sales are a normal component of such agreements and are included in the Company's cost of goods sold on an ongoing basis.

In 2013, 2012 and 2011, UTMD received royalties of \$90, \$89 and \$71, respectively, for the use of intellectual property of Filshie Clip System as part of Femcare's exclusive U.S. distribution agreement with Cooper Surgical, Inc.

#### Note 15 – Employee Benefit Plans

The Company sponsors a contributory 401(k) savings plan for U.S. employees, and contributory retirement plans for Ireland and UK employees. The Company's matching contribution is determined annually by the board of directors. Company contributions were approximately \$138, \$161 and \$209 for the years ended December 31, 2013, 2012 and 2011, respectively.

#### Note 16 – Recent Accounting Pronouncements

The Company's management has evaluated the recently issued accounting pronouncements through the filing date of these financial statements and has determined that the application of these pronouncements will not have a material impact on the Company's financial position and results of operations.

#### Note 17 – Subsequent Events

The Company evaluated its December 31, 2013 financial statements for subsequent events through the date the financial statements were issued. The Company is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

#### ITEM 9 – CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

#### ITEM 9A – CONTROLS AND PROCEDURES

##### Evaluation of Disclosure Controls and Procedures.

UTMD Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in the Securities Exchange Act of 1934 Rule 13a-15(e). UTMD's Board of Directors, operating through its audit committee, provides oversight to its financial reporting process.

During 2013, UTMD evaluated the effectiveness of the design and operation of its disclosure controls and procedures. Based on that evaluation, UTMD's Chief Executive Officer and Principal Financial Officer concluded that, as of

December 31, 2013, its disclosure controls and procedures were effective.

**Management's Report on Internal Control Over Financial Reporting.**

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, the Company has included, as part of this Form 10-K, a report of management's assessment of the effectiveness of its internal controls as of December 31, 2013. Jones Simkins LLC, the independent registered public accounting firm of the Company, has audited the effectiveness of the Company's internal control over financial reporting. The Norton Practice, the independent registered public accounting firm of Femcare Group Limited (Femcare Group) has audited the effectiveness of Femcare Group's internal control over financial reporting. Management's report, and the reports of Jones Simkins LLC and The Norton Practice appear on pages 32 through 36 of this Form 10-K under the captions "Management's Report on Internal Control Over Financial Reporting" and "Report of Independent Registered Public Accounting Firm" and are incorporated herein by reference.

**Changes in Internal Control Over Financial Reporting.**

There have been no changes in UTMD's internal control over financial reporting that materially affected, or were reasonably likely to materially affect, the Company's internal control over financial reporting during the fourth quarter of the fiscal year ended December 31, 2013, and there were no material weaknesses.

**ITEM 9B – OTHER INFORMATION**

None.

53

---

PART III

ITEM 10 – DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information from the definitive proxy statement of the registrant for the 2014 annual meeting of shareholders under the captions,

“PROPOSAL NO. 1. ELECTION OF DIRECTORS: General,” and “Directors and Nominees,”

“SECURITY OWNERSHIP OF MANAGEMENT AND CERTAIN PERSONS,” and

“EXECUTIVE OFFICER COMPENSATION: 2014 Director Compensation,”

is incorporated herein by reference.

UTMD adopted a Code of Ethics for its executive officers, including the Chief Executive Officer and outside directors, in October 2003. The Code of Ethics, along with UTMD’s Code of Conduct, which covers all exempt employees (including all officers and outside directors) and certain non-exempt employees, is posted on UTMD’s web site at [www.utahmed.com](http://www.utahmed.com). UTMD intends to post on its website any waivers of or amendments to its Code of Ethics.

ITEM 11 - EXECUTIVE COMPENSATION

The information from the definitive proxy statement of the registrant for the 2014 annual meeting of shareholders under the captions,

“EXECUTIVE OFFICER COMPENSATION,”

COMPENSATION DISCUSSION AND ANALYSIS,” and

BOARD OF DIRECTORS AND OTHER BOARD COMMITTEE REPORTS: Compensation and Option Committee Interlocks and Insider Participation,” specifically excluding the “Report of the Compensation Committee”

is incorporated herein by reference.

ITEM 12 - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information from the definitive proxy statement of the registrant for the 2014 annual meeting of shareholders under the captions,

“SECURITY OWNERSHIP OF MANAGEMENT AND CERTAIN PERSONS” and

“DISCLOSURE RESPECTING THE COMPANY’S EQUITY COMPENSATION PLANS”

is incorporated herein by reference.



ITEM 13 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information from the definitive proxy statement of the registrant for the 2014 annual meeting of shareholders under the captions,

“CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS”

“BOARD OF DIRECTORS AND OTHER BOARD COMMITTEE REPORTS: Director Independence”

is incorporated herein by reference.

The information from the definitive proxy statement of the registrant for the 2014 annual meeting of shareholders in the first paragraph under the caption, “Report of the Audit Committee” is incorporated herein by reference.

ITEM 14 – PRINCIPAL ACCOUNTING FEES AND SERVICES

The information from the definitive proxy statement of the registrant for the 2014 annual meeting of shareholders under the caption “PROPOSAL NO 2. RATIFICATION OF THE APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM: Fees billed by Jones Simkins LLC,” “Audit Committee Policy and Approval,” and “Auditor Independence” are incorporated herein by reference.



## PART IV

## ITEM 15 – EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this report or incorporated herein by reference.

1. Financial Statements.

(See Table of Contents to Item 8, above.)

2. Supplemental Schedule.

Financial Statement Schedules are omitted because they are inapplicable or the required information is otherwise included in the accompanying Financial Statements and the notes thereto.

3. Exhibits.

| Exhibit # | SEC Reference # | Title of Document   | Location                      |
|-----------|-----------------|---|-------------------------------|
| 1         | 3               | Articles of Restatement of the Articles of Incorporation  | Incorporated by Reference (1) |
| 2         | 3               | Articles of Correction to the Restated Articles of Incorporation  | Incorporated by Reference (1) |
| 3         | 3               | Bylaws  | Incorporated by Reference (2) |
| 4         | 4               | Rights Agreement dated as of July 30, 2004, between Utah Medical Products, Inc., and Registrar and Transfer Company               | Incorporated by Reference (4) |
| 5         | 4               | Designation of Rights, Privileges, and Preferences of Series "A" Preferred Stock  | Incorporated by Reference (3) |
| 6         | 10              | Employment Agreement dated December 21, 1992 with Kevin L. Cornwell*  | Incorporated by Reference (5) |
| 7         | 10              | Amendment, effective May 15, 1998, to Employment Agreement dated December 21, 1992 with Kevin L. Cornwell*                        | Incorporated by Reference (5) |
| 8         | 10              | Utah Medical Products, Inc., 2003 Employees' and Directors' Incentive Plan*   | Incorporated by Reference (6) |
| 9         | 10              | Utah Medical Products, Inc., 2013 Employees' and Directors' Incentive Plan*   | Incorporated by Reference (7) |
| 10        | 10              | Agreement relating to the sale and purchase of the whole of the issued share capital of Femcare Group Limited dated 18 March 2011 | Incorporated by Reference (8) |

|    |    |  |                                |
|----|----|--|--------------------------------|
| 11 | 10 | Credit Agreement dated as of March 17, 2011 among Utah Medical Products, Inc., as Borrower, and JPMorgan Chase Bank, N.A., as Lender                 | Incorporated by Reference (8)  |
| 12 | 10 | Facility Agreement dated 18 March 2011 for Femcare Group Limited as Borrower with JPMorgan Chase Bank, N.A., London Branch as Lender                 | Incorporated by Reference (8)  |
| 13 | 10 | First Modification Agreement dated as of September 23, 2011 among Utah Medical Products, Inc., as Borrower, and JPMorgan Chase Bank, N.A., as Lender | Incorporated by Reference (9)  |
| 14 | 10 | Second Modification Agreement dated as of December 7, 2012 among Utah Medical Products, Inc., as Borrower, and JPMorgan Chase Bank, N.A., as Lender  | Incorporated by Reference (10) |
| 15 | 10 | Summary of Officer and Director Compensation   | This Filing                    |

| Exhibit # | SEC Reference |   | Location                      |
|-----------|---------------|---|-------------------------------|
|           | #             | Title of Document   |                               |
| 16        | 21            | Subsidiaries of Utah Medical Products, Inc.   | Incorporated by Reference (7) |
| 17        | 23            | Consent of Jones Simkins LLC, Company's independent auditors for the years ended December 31, 2013, December 31, 2012 and December 31, 2011                 | This Filing                   |
| 18        | 23            | Consent of The Norton Practice, Femcare Group Limited's independent auditors for the years ended December 31, 2013, December 31, 2012 and December 31, 2011 | This Filing                   |
| 19        | 31            | Certification of CEO pursuant to Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  | This Filing                   |
| 20        | 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                | This Filing                   |
| 21        | 32            | Certification of CEO pursuant to 18 U.S.C. §1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002                                      | This Filing                   |
| 22        | 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              | This Filing                   |
| 101.ins   |               | XBRL Instance Document  | This Filing                   |
| 101.xsd   |               | XBRL Taxonomy Extension Schema Document   | This Filing                   |
| 101.cal   |               | XBRL Taxonomy Extension Calculation Linkbase Document   | This Filing                   |
| 101.def   |               | XBRL Taxonomy Extension Definition Linkbase Document  | This Filing                   |
| 101.tab   |               | XBRL Taxonomy Extension Label Linkbase Document   | This Filing                   |
| 101.pre   |               | XBRL Taxonomy Extension Presentation Linkbase Document  | This Filing                   |

\* Management contract of compensatory plan or arrangement required to be filed pursuant to Item 14(c).

(1) Incorporated by reference from the Company's annual report on form 10-K filed with the Commission for the year ended December 31, 2004.

(2) Incorporated by reference from the Company's report on form 8-K filed with the Commission on February 13, 2014.

(3)

Edgar Filing: UTAH MEDICAL PRODUCTS INC - Form 10-K

Incorporated by reference from the Company's registration statement on form S-8 filed with the Commission effective February 10, 1995.

- (4) Incorporated by reference from the Company's report on form 8-K filed with the Commission on October 1, 2004.
- (5) Incorporated by reference from the Company's annual report on form 10-K filed with the Commission for the year ended December 31, 2003.
- (6) Incorporated by reference from the Company's annual report on form 10-K filed with the Commission for the year ended December 31, 2002.
- (7) Incorporated by reference from the Company's annual report on form 10-K filed with the Commission for the year ended December 31, 2012.
- (8) Incorporated by reference from the Company's report on form 8-K filed with the Commission on March 23, 2011.
- (9) Incorporated by reference from the Company's report on form 8-K filed with the Commission on September 26, 2011.
- (10) Incorporated by reference from the Company's report on form 8-K filed with the Commission on December 10, 2012.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned this 12th day of March, 2014.

UTAH MEDICAL PRODUCTS, INC.

By: /s/ Kevin L. Cornwell  
Kevin L. Cornwell  
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on this 12th day of March, 2014.

By: /s/ James H. Beeson  
James H. Beeson, Director

By: /s/ Kevin L. Cornwell  
Kevin L. Cornwell, Chief Executive Officer &  
Director

By: /s/ Ernst G. Hoyer  
Ernst G. Hoyer, Director

By: /s/ Barbara A. Payne  
Barbara A. Payne, Director

By: /s/ Paul O. Richins  
Paul O. Richins, Principal Financial and  
Accounting Officer & Director