

UTAH MEDICAL PRODUCTS INC  
Form 10-K  
March 07, 2013

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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, 2012

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.)
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7043 S 300 W, Midvale Utah (Address of principal executive offices)	84047 (Zip Code)
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Registrant's telephone number, including area code:	Telephone (801) 566-1200 Facsimile (801) 566-7305
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Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, \$.01 Par Value	The NASDAQ Global Market
Preferred Stock Purchase Rights	

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 ☐ No ☒

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

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 ☒ No ☐

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

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(§ 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, 2012, the aggregate market value of the voting and nonvoting common equity held by nonaffiliates of the registrant was \$108,440,000.

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 5, 2013, common shares outstanding were 3,713,000.

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.

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## 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, 174 of which purchased at least five thousand dollars in UTMD medical devices during 2012.

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 \$30,784 in the form of cash dividends, to its public shareholders.

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 64% of UTMD's consolidated 2012 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. Femcare's UK headquarters are located at Stuart Court, Spursholt Place, Salisbury Road, Romsey, Hampshire, UK. The UK phone number is 44 (179) 452-5100.

## 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 amniotomies, 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 4-6% 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 2012, 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. 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 2013, 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 2012, 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 2012, sales to Cooper Surgical for use in the U.S. were 27% 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 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.

#### 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 dilation 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 dilation, 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 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 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 2012, UTMD sold components and finished devices to 134 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 2012 and 2011, 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 a new excise tax burden 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 15% 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 400 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, the marketing and distribution functions are managed by a third party under a service agreement. The international business activity outside the UK and Ireland is driven by the initiative and resourcefulness of those many independent distributors. Ten percent of these distributors represented 80% of UTMD’s indirect international sales in both 2012 and 2011.

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 2013.

## EMPLOYEES

At December 31, 2012, the Company had 178 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. and Ireland is over twelve 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 nineteen unexpired patents, has one patent pending 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 thirty-eight 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 shareholders 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 2012, ongoing royalties included in cost of goods sold were \$289. 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 2012 the Company received \$89 in royalty income, compared to \$71 in 2011 and none in 2010.



## 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 two international facilities, in Romsey, Hampshire, England, 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, and Africa 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 2012 were \$21,596 (52% of total sales), compared to \$19,007 (50% of total sales) in 2011 and \$7,690 (31% of total sales) in 2010. Exports from the U.S. to international customers were \$5,300 in 2012, \$5,387 in 2011 and \$4,576 in 2010. Exports represented 25%, 28% and 60% of total UTMD international sales in 2012, 2011 and 2010, respectively.

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 \$2,316 as of January 1, 2013, \$1,293 as of January 1, 2012 and \$847 as of January 1, 2011.

## 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 34 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 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 \$140 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 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 year period of time during which over twenty-five 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 begins 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” may 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.

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 substantial increase in debt required to finance the acquisition of Femcare Group Ltd represents an increased business risk until the debt is repaid:

While the debt will help positively leverage financial performance if UTMD maintains future performance consistent with 2012 performance, it could also negatively leverage financial performance if the Company is unable to maintain sales volume and profit margins in a competitive worldwide market for its medical devices.

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

In a small company with limited resources, the distraction or loss of key personnel at any point in time may be disruptive to performance. The Company's benefits programs are key to recruiting and retaining talented employees. 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 2013, 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, and 12,000 square feet of facilities near Romsey, Hampshire, England. In 2011, UTMD acquired the leased UK facilities which house Femcare. During 2010 the Company expanded its Midvale, Utah facility which allowed consolidation of injection molding operations previously located in a leased facility in Redmond, Oregon. The Oregon facility lease has been terminated. UTMD owns all of its property and facilities in the U.S. and Ireland, with the exception of a long-term lease with 19 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:

	2012 High	Low	2011 High	Low
1st Quarter	\$ 31.90	\$ 26.61	\$ 29.00	\$ 26.25
2nd Quarter	36.00	27.97	29.36	26.26
3rd Quarter	34.74	33.30	27.00	24.52
4th Quarter	36.32	32.99	27.44	25.53

## Stockholders.

The approximate number of beneficial stockholders of UTMD's common stock as of March 5, 2013 was 2,000.

## Dividends.

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

Record Date	Payable Date	Per Share Amount
March 18, 2011	April 5, 2011	\$ 0.235
June 17, 2011	July 5, 2011	0.235
September 16, 2011	October 2, 2011	0.235
December 14, 2011	December 29, 2011	0.24
March 19, 2012	April 4, 2012	0.24
June 15, 2012	July 5, 2012	0.24
September 14, 2012	October 5, 2012	0.24
December 13, 2012	December 28, 2012	0.245
2011 total paid per share		
		\$ 0.945
2012 total paid per share		
		\$ 0.965

## Issuer Purchases of Equity Securities.

The following table details purchases by UTMD of its own securities during fourth quarter 2012.

Period	Total Number of Shares purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased Under the Plans or Programs (1)
10/01/12 – 10/31/12	15,000	\$ 33.57	15,000	see (1) below
11/01/12 - 11/30/12	-	-	-	
12/01/12 - 12/31/12	-	-	-	
Total	15,000	\$ 33.57	15,000	

(1) In fourth quarter 2012 UTMD purchased an aggregate of 15,000 shares of its common stock at an average cost of \$33.57 per share, including commissions and fees, pursuant to a continued open market repurchase program instituted in August 1992. UTMD did not purchase any of its own securities during 2011. During 2010, UTMD purchased 17,570 of its shares for \$439 including commissions and fees.

## 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, 2012, 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				
	2012	2011	2010	2009	2008
Net Sales	\$ 41,552	\$ 37,860	\$ 25,121	\$ 25,916	\$ 27,782
Net Income	10,169	7,414	6,014	6,258	7,205
Earnings Per Common Share (Diluted)	2.74	2.03	1.65	1.72	1.86
Total Assets	76,935	76,389	41,238	41,754	38,821
Working Capital	10,712	7,385	23,239	24,472	21,511
Long-term Debt	9,003	16,242	909	1,403	1,828
Cash Dividends Per Common Share	0.965	0.945	1.665	0.925	1.130

	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

	Quarterly Data for 2011			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net Sales	\$ 6,793	\$ 10,377	\$ 10,784	\$ 9,907
Gross Profit	3,710	6,260	6,518	5,913
Net Income	1,336	1,982	2,237	1,858
Earnings Per Common Share (Diluted)	.37	.54	.61	.51

## 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

In 2012, sales, gross profits, operating profits, net income and earnings per share were substantially higher compared to 2011. On March 18, 2011, UTMD acquired Femcare (see note 6). The comparison between 2012 and 2011 is affected by the fact that 2011 results only include the business activity of Femcare Group Ltd after March 17, 2011:

	2012	2011	change	
Net Sales	\$ 41,552	\$ 37,860	9.8	%
Gross Profit	25,307	22,400	13.0	%
Operating Income	15,196	11,842	28.3	%
Income Before Tax	14,537	11,080	31.2	%
Net Income	10,169	7,414	37.2	%
Earnings per Share	2.740	2.034	34.7	%

A comparison of profit margins in 2012 to 2011 follows:

	2012		2011	
Gross Profit Margin	60.9	%	59.2	%
Operating Income Margin	36.6	%	31.3	%
Net Income Margin	24.5	%	19.6	%

The Company's continued excellent profitability in 2012 allowed it to pay down the five-year term loans that it incurred to finance the purchase of Femcare Group Ltd in March 2011 faster than required, while retaining UTMD's programs of dividend payments to its shareholders and share repurchases.

With regard to UTMD's four product categories, sales in gynecology/ urology products was its highest category in both 2011 and 2012. In 2012, gynecology/ urology, neonatal, blood pressure monitoring/ accessories and labor & delivery device sales were 56%, 16%, 16%, and 12% of total sales, respectively. In 2011, the same product categories were 51%, 18%, 16% and 15% of total sales, respectively. Simply stated, with the acquisition of Femcare, UTMD is now much more a gynecology medical device company. The Company's 2013 new product development activities will reflect that change in emphasis.

The improvement in gross profit margin (GPM) and operating profit margin (OPM) in 2012 was due to realization of operating synergies from the Femcare acquisition. The GPM benefited from direct sales in Ireland and the UK of Utah devices which were previously sold through distributors, from better utilization of manufacturing capabilities in Ireland due to pulling in work previously subcontracted out to third parties by Femcare and from a more favorable product mix over a full year compared to 80% of the prior year. The higher OPM in 2012 was due to 1) higher GPM, 2) lack of acquisition expenses experienced in the prior year, 3) improved productivity of S&M and G&A resources, and 4) a dilution of foreign subsidiary operating expenses when consolidating into U.S. Dollar (USD) terms as a result of a stronger USD.

UTMD's Net Income Margin (NIM) was up due to the higher OPM, lower interest expense resulting from lower loan balances and a lower income tax provision. The effective consolidated income tax provision rate for 2012 was three

percentage points lower than in 2011 due to a lower corporate income tax rate in the UK, a higher portion of pretax income in the lower taxed sovereignties of Ireland and the UK and a favorable income tax accrual adjustment in Ireland.

2012 earnings per share (EPS) of \$2.74 were slightly more diluted than in 2011 by the exercise of employee options. The number of diluted shares for calculating eps were up 1.8% from 2011. Over the years, UTMD has been able to effectively offset dilution from its option plans, which were approved by shareholders, by its share repurchase program, which remains UTMD's objective going forward.

There were a few significant changes in UTMD's Balance Sheet at December 31, 2012 from December 31, 2011. Current assets increased \$1.5 million (cash & investments increased \$2.3 million, while inventories decreased \$0.7 million), current liabilities decreased \$1.8 million and notes payable declined \$7.2 million. Shareholders' Equity increased \$10.2 million net of cash dividends paid to shareholders of \$3.6 million and share repurchases of \$0.5 million.

Measures of the Company's liquidity and overall financial condition improved in 2012 as UTMD reduced its debt. UTMD's current ratio (current assets to current liabilities) increased to 2.4 at the end of 2012 from 1.8 a year earlier, and the total debt ratio (total liabilities to total assets) declined to 34% from 47% at the end of 2011. Cash generation remained strong enough to increase quarterly cash dividend payout rate to shareholders by 2% and repurchase 15,000 shares while at the same time paying down the loan principal balances more rapidly than required. Ending days in accounts receivable improved to 35 from 41. Inventory balances were 13% lower at year-end 2012 than at the end of 2011. The return on average shareholders' equity (prior to the payment of dividends) increased to 22% in 2012 compared to 19% for 2011.

#### Productivity of Assets and Working Capital.

a) Assets. Year-end 2012 total assets were \$76,935 compared to \$76,389 at the end of 2011. Current assets increased \$1,519 due to a \$2,337 increase in cash, offset by decreases in receivables and inventories. The two components of Femcare intangibles at year-end 2012 were identifiable intangibles of \$34,327, reduced from \$39,018 on March 18, 2011 by accumulated amortization of \$4,691, and goodwill of \$8,297. The productivity of total assets (average total asset turns = total sales divided by average total assets for the year) in 2012 was 54% compared to 64% in 2011. The decline was due to the increase in assets from the Femcare acquisition for only a portion of 2011.

Property, plant and equipment (PP&E) assets are comprised of Utah, Ireland and England manufacturing molds, production tooling and equipment, test equipment, computer/communications equipment and software, and facilities. Ending 2012 net consolidated PP&E (depreciated book value of all fixed assets) decreased \$377 as a result of \$653 in depreciation, capital expenditures of \$254 and the year-end effect of USD currency exchange rates on the value of PP&E in England and Ireland. The net book value of PP&E in the U.S. decreased \$315 during 2012, and in Ireland decreased \$44. Femcare's 2012-ending net book value of PP&E was \$482 after depreciation of \$209. Average PP&E turns (Sales divided by Net PP&E) increased about 12% because sales increased 10% and year-end Net PP&E decreased 4%. In contrast to UTMD, Femcare leases its facilities and subcontracts most of its manufacturing. The year-end 2012 net book value (after accumulated depreciation) of consolidated PP&E was 31% of actual acquisition 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 2010, the Utah facility was expanded to consolidate Oregon operations. In 2013, new PP&E purchases are not expected to exceed depreciation of fixed assets.

Year-end 2012 inventories decreased 13% from the beginning of the year. Average 2012 inventory turns were 3.5 compared to 3.8 in 2011 despite lower inventories at the end of 2012, because the 2011 beginning inventory balance did not include Femcare. Net (after allowance for doubtful accounts) year-end trade accounts receivable (A/R) balances decreased \$600 due to collection of slow paying international accounts. Average days in A/R on December 31, 2012 of 35 days, based on 4Q 2012 shipments, was down from 41 days at the end of 2011. This performance remained well within management's continuing trade A/R objective of 55 days. The Company believes any older A/R will be collected or are within its reserve balances for uncollectible accounts.

Working capital at year-end 2012 was \$10,712 compared to \$7,385 at year-end 2011. Compared to the end of 2011, 2012 year-end current assets increased \$1,519 and year-end current liabilities decreased \$1,808. This had a leveraged effect on the current ratio, which improved to 2.4 from 1.8 at the end of 2011.

The increase in current assets resulted from a \$2,337 increase in cash. Year-end 2012 and 2011 cash and investment balances were \$8,913 and \$6,599, representing 12% and 9% of total assets, respectively. The end of 2012 working capital amount exceeds UTMD's needs for managing normal operations, meeting current interest and debt repayment obligations, and paying shareholder 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 purchase Femcare as of December 31, 2012 (using the year-end 2012 GBP to USD conversion rate) is \$13,005. Because the remaining Femcare loan payments are fixed and cannot be paid early without penalty, UTMD expects to use just \$4,000 to reduce loan balances in 2013, following use of \$9,093 in 2012 and \$5,942 in 2011. Even after continued shareholder dividend payments, UTMD anticipates increasing cash balances during 2013, unless another acquisition, or unusual investment in PP&E or technology, or significant share repurchase opportunities occur. Without currently identified opportunities for significant uses of cash, UTMD's current ratio at the end of 2013 will be higher than at the end of 2012.

Net intangible assets were \$49,972 at the end of 2012 compared to \$50,569 at the end of 2011. 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. UTMD's goodwill balance was \$15,488 at the end of 2012. 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 2013. Purchases of intangibles in 2012 were \$1, while there was \$2,613 in amortization expense. The 2012 non-cash amortization expense of Femcare identifiable intangible assets was \$2,561. The non-cash 2013 amortization expense of Femcare identifiable intangible assets will be about \$2,585, depending on the USD/GBP exchange rate on £1,615 of expense. Net intangible assets at the end of 2012 represented 65% of total assets, compared to 66% at the end of 2011.

b) Liabilities. At the end of 2012, UTMD's total liabilities decreased \$9,669 from the end of 2011. The resulting 2012 year-end total debt ratio was 34%, compared to 47% at the end of 2011. Total liabilities decreased primarily because of repayment of the term loans (which had a year-end balance of \$13,005) that UTMD obtained to help finance the Femcare acquisition in 2011. The deferred tax liability created as a result of the fifteen year tax consequence of the amortization of the Femcare identifiable intangible assets had a 2012 year-end balance of \$7,889, down from \$8,549 a year earlier. The Ireland subsidiary debt was fully retired during 2012 from a loan balance of €468 at the end of 2011. The Femcare UK loan declined \$2,110 in book value, compared to principal payments of \$2,536. In Great Britain Pound (GBP) terms, the note declined 24% from £6,800 at the end of 2011 to £5,200 at the end of 2012. The differences between the decline in the period end balances and the principal payments during the year resulted from timing of currency exchange rates applied to balance sheet balances. Principal payments on the Femcare US loan were \$5,950, as the note declined from \$10,500 at the end of 2011 to \$4,550 at the end of 2012. UTMD has now repaid the entire variable interest rate portion of the USD note, and anticipates repaying the remaining GBP and USD balances ratably over the remaining life to March 2016. Year-end 2012 consolidated current liabilities were \$1,808 lower than at year-end 2011 as a result of paying off the variable interest rate portion of the USD loan, which reduced the current portion of the loan by \$1,400, and from paying a \$400 portion of accrued management bonuses in December 2012 instead of in January 2013. 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 2012 were \$41,552, compared to \$37,860 in 2011 and \$25,121 in 2010.



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 15% 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.

Total global consolidated sales in 2012 were up \$3,692, or 10% from 2011. Consolidated sales were \$41,552, \$37,860 and \$25,121 in calendar years 2012, 2011 and 2010, respectively.

Domestic sales were \$19,955 in 2012, compared to \$18,853 in 2011 and \$17,431 in 2010. The increase in 2012 was due to a \$1.6 million increase in Filshie Clip System sales to Cooper Surgical, Inc. (COO). The increase resulted from the fact that 2011 sales to COO were only for the part of 2011 following the March Femcare acquisition. In 2012, total sales to COO were \$3,882, or 9.3% of total sales. COO has forecasted its purchases from UTMD in 2013 will be about \$650 lower than in 2012, with the difference all in the first quarter of 2013.

International (foreign) sales in 2012 were \$21,596 compared to \$19,007 in 2011 and \$7,690 in 2010. International sales were 52% of global consolidated sales in 2012, 50% in 2011 and 31% in 2010. 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 414 international distributors in 2012. In addition to a greater number of overseas sales distribution entities, UTMD plans to 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 product lines relative to their individual market needs, and UTMD adjusts its distribution agreements. As a measure of better utilization of existing distributors, in 2012 UTMD sold more than \$5,000 worth of devices to 174 international distributors compared to 148 in 2011.

Of the 2012 international sales, 43% were to customers in Europe compared to 41% in 2011 and 44% in 2010. Femcare shipped 58% of UTMD's total international sales in both 2012 and 2011. UTMD's Ireland subsidiary (UTMD Ltd.) shipped 17% of total international sales (in USD terms) in 2012, compared to 14% in 2011 and 40% in

2010. 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 growth in its international sales will continue to outpace domestic 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 market share and may have differentiated product features protected by patents.

Global revenues by product category:

	2012	%	2011	%	2010	%
Obstetrics	\$ 5,194	12	\$ 5,742	15	\$ 5,940	24
Gynecology/ Electrosurgery/ Urology	23,142	56	19,196	51	5,888	23
Neonatal	6,539	16	6,951	18	7,295	29
Blood Pressure Monitoring and Accessories*	6,677	16	5,971	16	5,998	24
Total:	\$ 41,552	100	\$ 37,860	100	\$ 25,121	100

\*includes molded components sold to OEM customers.

International revenues by product category:

	2012	%	2011	%	2010	%
Obstetrics	\$ 600	3	\$ 809	4	\$ 708	9
Gynecology/ Electrosurgery/ Urology	15,273	71	12,856	68	1,935	25
Neonatal	1,339	6	1,346	7	1,193	16
Blood Pressure Monitoring and Accessories*	4,385	20	3,996	21	3,854	50
Total:	\$ 21,596	100	\$ 19,007	100	\$ 7,690	100

\*includes molded components sold to OEM customers.

As a summary description of revenues in the above tables:

1. Obstetrics. The decline in total obstetrics (L&D) device sales in 2012 was the result of lower utilization of specialty devices in U.S. hospitals together with restrictive U.S. GPO administrative agreements. U.S. domestic obstetric product sales declined 7%. International obstetric device sales decreased 26% due to overstocking by a few international distributors in 2011.

2. The gynecology/ electrosurgery/ urology (ES/Gyn) product category includes all of Femcare's products. ES/Gyn sales in 2012 excluding Femcare increased 9%. With Femcare, ES/Gyn sales increased 21%. Domestic ES/Gyn sales increased 24%, while International ES/Gyn sales increased 19%. The domestic sales increase was due to sales to Cooper Surgical Inc., described above. The ES/Gyn international sales increase included direct sales in the UK and

Ireland at end-user prices instead of distributor prices, as well as an unusual purchase of \$570 in electrosurgery equipment and supplies for a Far East clinical customer.

3. Neonatal intensive care unit (NICU) device sales decreased 7% in the U.S. and remained about the same internationally. The U.S. decline was consistent with UTMD's experience described for the obstetrics product category.

4. Blood pressure monitoring and accessories (BPM). U.S. domestic BPM sales increased 16%, while international BPM sales increased 10%. This category 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 to a \$343 (28%) increase in OEM sales. UTMD's second largest customer in 2012, Beijing SAK, purchased \$2.0 million of Deltran blood pressure monitoring kits from UTMD Ltd (Ireland) for use in China, compared to \$1.7 million in 2011.

Looking forward to 2013, in addition to the \$650 lower COO forecast for its purchases of the Filshie Clip System for U.S. distribution, UTMD does not expect the 2012 Far East \$570 electrosurgery supplies program purchase to repeat in 2013, and anticipates that severely economically challenged U.S. hospital purchases of specialty neonatal and L&D devices may decline another \$200. Offsetting the projected declines, UTMD expects to continue obtaining benefits from its joint distribution rationalization program initiated after the acquisition of Femcare in March 2011, including selling devices directly in Ireland, UK and Australia at end-user prices that were previously sold to distributors at wholesale prices. If correct about the attractiveness of its new system, UTMD expects to gain \$300 in Finesse+ sales. New distributors recruited in 2012 in emerging markets should add another \$100 in 2013 sales. International BPM kit sales should continue to grow by perhaps \$100, as China SAK, UTMD's largest BPM kit customer at \$2,000 in 2012, has committed to purchasing a comparable amount in 2013. Finally, UTMD expects that its U.S. OEM customer business which grew by \$343 in 2012 should increase another \$100 in 2013. Netting the above together, excluding the possibility of an acquisition or successful introduction of not yet announced new products, UTMD's best estimate for 2013 global consolidated sales is a decline of about 2%, which is about equal to the projected decline in the COO forecast by itself.

b) Gross Profit. UTMD's 2012 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 \$25,307 compared to \$22,400 in 2011 and \$13,209 in 2010. Average gross profit margins (GPMs), gross profits expressed as a percentage of net sales, were 60.9% in 2012 compared to 59.2% in 2011 and 52.6% in 2010. Despite increases in raw materials costs and unit labor costs in 2012, UTMD's GPM was 1.7 percentage points higher in 2012 than in 2011. The improvement was due to a more favorable product mix over a full year compared to 80% of the prior year, substantially better utilization of manufacturing direct labor and overhead costs in Ireland, and better efficiencies in Utah molding operations from providing a greater volume of molded part components both to intercompany as well as external OEM customers.

The Ireland subsidiary GPM is lower than the average consolidated UTMD GPM because almost all of the finished devices sold by UTMD Ltd were to third party international distributors at discounted wholesale prices. BPM devices themselves are generally commodities now, and the costs of manufacturing in Ireland, in particular labor-related costs, are higher than in Utah. Ireland subsidiary gross profits in Euros were €827 in 2012 compared to €289 in 2011 and €448 in 2010. The associated GPMs were 27.9% in 2012, 14.9% in 2011 and 19.0% in 2010. The higher GPM in 2012 was due the fact that sales increased 54% while loaded direct labor increased 14% and manufacturing overhead costs increased 7%. The gains in productivity in direct labor and manufacturing overhead costs were partially offset by marginally higher direct materials costs which increased 64%.

The 2012 Femcare Group subsidiary gross profits in GBP were £7,471 compared to £5,790 in 2011. The associated GPMs were 66.5% in 2012 and 70.0% in 2011. The decline was due primarily to higher direct materials costs. Going forward, UTMD expects to realize a benefit from its own manufacturing quality and cost disciplines for certain Femcare devices. In particular, UTMD will be able to increasingly employ its Utah molding capabilities and Ireland assembly and packaging operations.

In the U.S., gross profits were \$12,478 in 2012 compared to \$12,697 in 2011 and \$12,611 in 2010. The associated GPMs were 55.9% in 2012, 56.6% in 2011 and 56.4% in 2010.

With 2% lower sales in 2013, UTMD expects that its consolidated gross profits will be about 3% lower as a result of increases in fixed labor and overhead costs absorbed by lower revenues, higher costs of employee benefits including medical plan costs and unemployment taxes, inflation in the cost of raw materials and a less favorable product mix than in 2012. As the Company succeeds in bringing the manufacture of some Femcare products in-house, and continues to increase sales to end-users rather than to distributors, it will help offset the unfavorable factors outlined above. Taking all factors together, UTMD estimates that the net impact to its consolidated GPM in 2013 will be a

reduction to about 60.2% from 60.9% in 2012.

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 \$10,111 in 2012, compared to \$10,558 in 2011 and \$4,288 in 2010. The following table provides a comparison of operating expense categories for the last three years.

	2012	2011	2010
S&M expenses	\$ 2,711	\$ 2,815	\$ 1,537
R&D expenses	563	518	397
G&A – a) litigation expense provision	250	186	50
G&A – b) corporate legal expenses	23	65	19
G&A – c) stock option compensation expense	70	95	83
G&A – d) management bonus accrual	638	840	335
G&A – e) outside accounting audit/tax expenses	238	220	117
G&A – f) intangible asset amortization	2,613	2,067	44
G&A – g) acquisition expenses	0	341	0
G&A – h) all other G&A expenses	3,004	3,411	1,706
G&A expenses – total	6,836	7,225	2,354
Total operating expenses	\$ 10,111	\$ 10,558	\$ 4,288
Operating Expenses % of Sales:	24.3 %	27.9 %	17.1 %

Consolidated operating income in 2012 was \$15,196 compared to \$11,842 in 2011 and \$8,922 in 2010. UTMD's operating income margin (OIM), operating income divided by total sales, was 36.6% in 2012, compared to 31.3% in 2011 and 35.5% in 2010. The UTMD Ltd (Ireland subsidiary) OIM in 2012 was 17.8% compared to 3.7% in 2011 and 12.1% in 2010. Femcare's 2012 OIM was 34.2% compared to 26.8% in 2011. UTMD U.S. OIM in 2012 was 38.1% compared to 36.4% in 2011 and 38.2% in 2010.

Looking forward to 2013, UTMD projects its consolidated OIM will be about 36%

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 2012 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. This is reflected in the increase in S&M expenses in 2011 after the acquisition of Femcare.

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.

As a percent of total sales, S&M operating expenses were 6.5% in 2012 compared to 7.4% in 2011 and 6.1% in 2010. S&M expenses are expected to be about 6.9% of sales in 2013 because UTMD 1) expects 3% lower sales which will increase the ratio for the same amount of expenses, 2) expects to have sales people on board throughout the year who were hired in 2012, and 3) plans for additional trade shows, and other marketing initiatives.



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 1.4% in 2012 compared to 1.4% in 2011 and 1.6% in 2010. UTMD will continue to opportunistically invest in R&D. In 2013, R&D expenses as a percentage of sales are expected to be consistent with prior years.

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. In most of these functional areas, there was a lot of redundancy immediately following the Femcare acquisition, in addition to one-time costs associated with the acquisition.

As a percent of total sales, G&A operating expenses were 16.5% in 2012 compared to 19.1% in 2011 and 9.4% in 2010. UTMD expects to control G&A expenses to about 16% of sales in 2013 primarily as a result of reducing its litigation expense.

In summary, in 2013, UTMD expects operating expenses about the same as in 2012 as a percent of sales, with higher S&M expenses offset by lower G&A expenses, and R&D expenses remaining about the same. If successful in achieving its sales and gross profit targets stated above, the resulting OPM of about 36% would yield operating profits in the range of \$14.6 to \$14.8 million, a decline of about 3% compared to 2012.

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.

The Medical Device Excise Tax (MDET), a component of the Patient Protection and Affordable Care Act, (known commonly as Obamacare) went into effect after December 31, 2012. The excise tax is 2.3% of domestic sales of medical devices listed with the FDA. Medical devices designed for human use will be 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 is 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 will be felt beyond 2.3%, as costs associated with administering, tracking, collecting, and paying the tax will be significant. UTMD believes this tax should be recognized as part of its non-operating expenses.

Net NOE (combination of NOE and NOI) was \$659 in 2012 compared to net NOE of \$762 in 2011 and NOI of \$119 in 2010. The largest portion of 2012 NOE was \$652 interest expense on bank loans. All the other components of NOE/NOI summed to \$7 in net NOE. UTMD estimates Net NOE in 2013 will be about \$640, lower than in 2012 despite the addition of the MDET. This is because lower interest expense and lack of the 2012 impairment charge in 2013 more than offset the new MDET.

1) Interest Expense. In 2012, UTMD paid \$652 in interest expense on the Femcare and Ireland loans, compared to \$859 in 2011 and \$25 in 2010 (on just the Ireland loan). The interest expense results from borrowing £8,000 (\$12,934) and \$14,000 in March 2011 for the purchase of Femcare, and €4,500 (\$5,336) in December 2005 to allow the repatriation of profits generated by UTMD’s Ireland subsidiary since inception in 1996 through 2005. Please see note 7 below. Due to decreasing loan principal balances, UTMD estimates that its

interest expense will be about \$442 in 2013.

- 2) Investment of excess cash. Investment income (including gains and losses on sales) in 2012 was \$10, compared to \$17 in 2011 and \$39 in 2010. Average lower interest rates and the use of over \$14.1 million cash in the 2011 Femcare acquisition caused the reduction from 2010. 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 2013.

- 3) **Royalties.** Femcare receives a royalty from licensing the use of the Filshie Clip intangibles to Cooper Surgical, Inc as part of its U.S. exclusive distribution agreement. Royalties in 2012 were \$89 compared to \$71 in 2011. UTMD expects to receive \$75 in Filshie royalties in 2013. 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 excise taxes, was \$71 in 2012, \$10 in 2011 and \$104 in 2010. 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 \$28 in 2012.
- 5) **MDET.** The MDET begins in 2013. UTMD estimates that about one-third of its consolidated revenues will be subject to the 2.3% excise tax. Therefore, UTMD estimates the MDET will be about \$311 in 2013.

Income before Taxes (EBT) result from subtracting non-operating expense from operating income. Consolidated EBT was \$14,537 in 2012 compared to \$11,080 in 2011 and \$9,041 in 2010. EBT margin is EBT divided by total sales. UTMD's consolidated EBT margin was 35.0% in 2012, 29.3% in 2011 and 36.0% in 2010. The EBT of UTMD Ltd. (Ireland) was €575 in 2012, €76 in 2011 and €350 in 2010. The respective EBT margins of UTMD Ltd. (Ireland) were 19.4% in 2012, 4.0% in 2011 and 14.9% in 2010. Femcare's 2012 EBT was £3,668 compared to £1,980 in 2011; EBT margin was 32.7% in 2012 and 24.0% in 2011.

UTMD is targeting consolidated 2013 EBT in the range of \$14.0 to \$14.2 million, a decrease of about 3% compared to 2012, consistent with the decline in gross profits and operating income.

e) **Net Income, EPS and ROE.** Net income is EBT minus income taxes, often called the "bottom line". Net income was \$10,169 in 2012, \$7,414 in 2011 and \$6,014 in 2010. The effective consolidated corporate income tax provision rate was 30.0%, 33.1% and 33.5% for the same periods respectively. 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 26% in 1Q 2012 and a rate of 24% for the last three quarters of 2012. The UK income tax rate of 24% will decline to 23% as of April 1, 2013. 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 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 2013. Management expects the 2013 consolidated average income tax provision rate to be about a half percentage point of EBT lower than the 2012 rate due to a greater proportion of consolidated EBT coming from Ireland and a lower tax rate in the UK.

UTMD's net income margin (NIM), net income expressed as a percentage of sales, was 24.5% in 2012, 19.6% in 2011 and 23.9% in 2010. Despite the new onerous MDET, UTMD projects its 2013 NIM be comparable to 2012. 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 shareholders' 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 \$2.740 in 2012, \$2.034 in 2011 and \$1.651 in 2010. If UTMD achieves the projections above, EPS in 2013 will be in the range of \$2.65 - \$2.68/ share. To put it simply, the difference between projected 2013 eps and 2012 actual eps will be about 6¢ per share for the new MDET and another 2¢ for a higher average number of diluted shares.

In summary, management expects revenues and net income in 2013 to decline about 2%, and gross profit, operating income, EBT, and eps to be down about 3% compared to 2012.

The 2012-ending weighted average number of diluted common shares (the number used to calculate diluted EPS) were 3,711 (in thousands), compared to 3,645 shares in 2011 and 3,643 shares in 2010. Dilution for “in the money” unexercised options for the year 2012 was 34 shares, compared to 14 in 2011 and 22 in 2010. Actual outstanding common shares as of December 31, 2012 were 3,703.

Return on shareholders’ 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 shareholders’ equity during the applicable time period. ROE includes balance sheet measures as well as income statement measures. ROE for 2012 was 14% (22% before payment of dividends). ROE for 2011 was 10% (19% before payment of dividends). ROE for 2010 was zero because in 2010 UTMD paid out all of its net income to shareholders in the form of cash dividends. Prior to the payment of dividends, UTMD’s 2010 ROE was 16%. UTMD’s ROE is primarily driven by its high net income margin. UTMD’s 2012 ROE was higher than in 2011 despite lower asset turns and debt ratio, because of its significant improvement in profitability. UTMD’s ROE (before dividends) has averaged 30% per year over the last 26 years. This ratio determines how fast the Company can afford to grow without diluting shareholder interest. For example, a 30% ROE will financially support 30% annual growth in revenues without having to issue more stock.

Looking forward, 2013 ROE may be about 18% (before dividends) since average shareholder equity is expected to be about \$10 million higher (without additional share repurchases) and net income is expected to be about 2% lower.

#### 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 \$13,563 in 2012, compared to \$11,365 in 2011 and \$7,157 in 2010. The largest changes in 2012 compared to 2011 were a net income increase of \$2,755, and benefits to cash of \$1,465 from decreased inventories and \$1,262 for increased accounts payable. A \$2,728 decrease in accrued expenses was the largest change that used cash. 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 2010-2012. UTMD liquidated a net of \$14,655 of investments to help finance the acquisition. In investing activities, during 2012 UTMD used \$254 for capital expenditures, \$1 for intangible assets, and received \$47 from the sale of investments. Cash used for investing activities in 2010 was split quite evenly between capital expenditures of \$1,532 for property and equipment and \$1,600 as a result of purchases of liquid investments in an effort to maximize returns on excess cash balances while maintaining safety and liquidity. The large difference in capital expenditures in 2010 compared to the two other years was due to UTMD’s \$1,145 investment in facility expansion in order to consolidate Oregon operations into Utah. In 2010, UTMD received a net \$4,239 from selling and buying investments. The Company borrowed \$26,934 in 2011 to help finance the purchase of Femcare. For the 2012 year, UTMD paid \$3,555 in shareholder cash dividends compared to \$3,433 during 2011.

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. By comparison, 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. The Company received a \$34 tax benefit from option exercises in 2011. UTMD did not purchase any of its own shares in the open market during 2011. In 2010, UTMD received \$425 and issued 24,700 shares of stock upon

the exercise of employee stock options. Employees exercised a total of 27,230 option shares in 2010, with 2,530 shares immediately being retired as a result of optionees trading the shares in payment of the exercise price of the options. UTMD repurchased 17,570 shares of stock in the open market at a cost of \$439 during 2010. Option exercises in 2010 were at an average price of \$18.25 per share. Share repurchases in the open market were at an average cost of \$24.98 per share, including commissions and fees. UTMD received a \$38 tax benefit in 2010 from option exercises.

UTMD repaid \$9,093 on its notes payable during 2012, compared to \$5,942 during 2011 and \$413 in 2010. 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 \$3,555 in 2012, compared to \$3,433 in 2011 and \$6,030 in 2010. A special dividend was paid at the end of 2010. UTMD did not borrow during 2012 or 2010. In December 2005, UTMD's foreign subsidiary borrowed €4,500 (\$5,336) to allow repatriation (from Ireland to the U.S.) of profits achieved since 1996, per The American Jobs Creation Act of 2004.

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 shareholders in mind. Planned 2013 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; 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 shareholders in the form of dividends and share repurchases when the stock appears undervalued.

#### Management's Outlook.

In 2013 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 shareholders 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 shareholders with excellent returns. In 2012, the value of UTMD's stock increased 33.5%. This compares favorably to an increase of 15.9% in the NASDAQ Composite Index, an increase of 13.4% in the S&P 500 Index and a 7.3% increase in the Dow Jones Industrial Average. Taking a longer term view, as of the end of 2012 from the end of 1998, the NASDAQ Composite Index was up 38%, the S&P 500 Index was up 16% and the DJIA was up 43%. In comparison, UTMD's share price increased 449% over that same fourteen year time span (13% annually compounded increase per year). If additional returns to shareholders from cash dividends are added, shareholder value increased 568% (15% per year). Combining share price appreciation as a result of a long term profitable financial performance with steadily growing quarterly cash dividends paid to shareholders since 2004, longer term UTMD shareholders 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, 2012. Long-term debt obligations are comprised of future payments required to pay off the Femcare notes:

Contractual Obligations and Commitments	Total	2013	2014 - 2015	2016 - 2017	2018 and thereafter
Long-term debt obligations	\$ 13,886	\$ 4,456	\$8,423	\$1,007	\$ -
Operating lease obligations	1,248	210	274	90	674
Purchase obligations	1,538	1,423	115	-	-
Total	\$ 16,672	\$ 6,089	\$8,812	\$1,097	\$ 674

## 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 .7585, .7707 and .7550 EUR per USD as of December 31, 2012, 2011 and 2010, respectively. Exchange rates were .6150 and .6436 GBP per USD as of December 31, 2012 and 2011, respectively. Exchange rates were 0.9621 and 0.9755 AUD per USD on December 31, 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.

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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, 2012. 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, 2012.

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, 2012, 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, 2012, 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, 2012 and 2011, 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, 2012. We also have audited Utah Medical Products, Inc.'s internal control over financial reporting as of December 31, 2012, 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 the financial statements and we did not examine the effectiveness of internal control over financial reporting of Femcare Group Limited, a wholly owned subsidiary, whose statements reflect total assets of \$50,514,000 and \$49,891,000 as of December 31, 2012 and 2011, respectively, and total revenues of \$16,484,000, \$13,273,000, and \$0, respectively for each of the years in the three-year period ended December 31, 2012. Those 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.

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, 2012 and 2011, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2012 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, 2012, 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 1, 2013

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, 2012 and 2011, and the related statements of income, stockholders' equity, and cash flows for the year ended December 31, 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 audits.

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, 2012 and 2011, and the results of its operations and its cash flows for the year ended December 31, 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, 2012, 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 February 25th, 2013 expressed an unqualified opinion.

/s/ The Norton Practice

The Norton Practice  
Reading, United Kingdom

February 25th, 2013



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, 2012, 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 audit 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, 2012, 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 February 25th, 2013, expressed an unqualified opinion.

/s/ The Norton Practice

The Norton Practice  
Reading, United Kingdom

February 25th, 2013

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UTAH MEDICAL PRODUCTS, INC.  
CONSOLIDATED BALANCE SHEET  
December 31, 2012 and 2011  
(In thousands)

ASSETS	2012	2011
Current assets:		
Cash	\$8,871	\$6,534
Investments, available-for-sale (notes 3 and 4)	42	64
Accounts and other receivables, net (note 2)	4,341	4,734
Inventories (note 2)	4,353	5,005
Prepaid expenses and other current assets	477	345
Deferred income taxes (note 9)	451	333
Total current assets	18,535	17,016
Property and equipment, net (note 5)	8,428	8,805
Goodwill (note 6)	15,488	15,120
Other intangible assets (note 6)	41,242	39,461
Other intangible assets - accumulated amortization	(6,758 )	(4,012 )
Other intangible assets - net (note 2)	34,484	35,449
Total assets	\$76,935	\$76,389
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$1,000	\$925
Accrued expenses (note 2)	2,821	3,276
Current portion of notes payable (note 7)	4,001	5,430
Total current liabilities	7,823	9,631
Notes payable (note 7)	9,003	16,242
Deferred tax liability - intangible assets (note 6)	7,889	8,549
Other long term liabilities	363	522
Deferred income taxes (note 9)	884	688
Total liabilities	25,963	35,632
Commitments and contingencies (notes 8 and 13)	-	-
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 3,703 shares in 2012 and 3,640 shares in 2011	37	36
Accumulated other comprehensive income	(851 )	(2,906 )
Additional paid-in capital	2,268	721
Retained earnings	49,519	42,904
Total stockholders' equity	50,972	40,757
Total liabilities and stockholders' equity	\$76,935	\$76,389

See accompanying notes to financial statements.

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

Years ended December 31, 2012, 2011 and 2010

(In thousands, except per share amounts)

	2012	2011	2010
Sales, net (notes 11, 12 and 13)	\$41,552	\$37,860	\$25,121
Cost of goods sold	16,245	15,460	11,911
Gross profit	25,307	22,400	13,209
Operating expense:			
Sales and marketing	(2,711 )	(2,815 )	(1,537 )
Research and development	(563 )	(518 )	(397 )
General and administrative	(6,836 )	(7,225 )	(2,354 )
Operating income	15,196	11,842	8,922
Other income (expense):			
Dividend and interest income	11	16	48
Gains and (losses) on investments	(1 )	1	(9 )
Royalty income (note 13)	89	71	-
Interest expense	(652 )	(859 )	(25 )
Other, net	(106 )	10	104
Income before provision for income taxes	14,537	11,080	9,041
Provision for income taxes (note 9)	4,368	3,666	3,026
Net income	\$10,169	\$7,414	\$6,014
Earnings per common share (basic) (note 1):	\$2.77	\$2.04	\$1.66
Earnings per common share (diluted) (note 1):	\$2.74	\$2.03	\$1.65
Other comprehensive income:			
Foreign currency translation net of taxes of \$0, \$0 and \$0	\$1,862	\$(1,628 )	\$(326 )
Unrealized gain (loss) on investments net of taxes of \$123, \$(2) and \$29	193	(3 )	45
Total comprehensive income	\$12,224	\$5,783	\$5,733

See accompanying notes to financial statements.

UTAH MEDICAL PRODUCTS, INC.  
CONSOLIDATED STATEMENT OF CASH FLOW  
Years Ended December 31, 2012, 2011 and 2010  
(In thousands)

	2012	2011	2010
Cash flows from operating activities:			
Net income	\$10,169	\$7,414	\$6,014
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	653	707	563
Amortization	2,613	2,066	44
(Gain) loss on investments	177	(6 )	(38 )
Provision for (recovery of) losses on accounts receivable	5	77	6
Loss on disposal of assets	-	-	0
Deferred income taxes	(600 )	(549 )	-
Stock-based compensation expense	70	95	83
(Increase) decrease in:			
Accounts receivable	675	502	110
Accrued interest and other receivables	(204 )	(31 )	(165 )
Inventories	841	(624 )	286
Prepaid expenses and other current assets	(125 )	529	58
Increase (decrease) in:			
Accounts payable	50	(1,213 )	52
Accrued expenses	(570 )	2,158	143
Deferred revenue	(100 )	(66 )	-
Other liability	(91 )	307	-
Net cash provided by operating activities	13,563	11,365	7,157
Cash flows from investing activities:			
Capital expenditures for:			
Property and equipment	(254 )	(247 )	(1,532 )
Intangible assets	(1 )	(10 )	(2 )
Purchases of investments	-	(500 )	(1,600 )
Proceeds from the sale of investments	47	15,155	5,839
Net cash paid in acquisition	-	(41,084 )	-
Net cash provided by (used in) investing activities	(208 )	(26,685 )	2,705
Cash flows from financing activities:			
Proceeds from issuance of common stock - options	1,803	485	425
Common stock purchased and retired	(504 )	-	(439 )
Tax benefit attributable to exercise of stock options	178	34	38
Proceeds from notes payable	-	26,934	-
Repayments of notes payable	(9,093 )	(5,942 )	(413 )
Dividends paid	(3,555 )	(3,433 )	(6,030 )
Net cash provided by (used in) financing activities	(11,171 )	18,078	(6,419 )
Effect of exchange rate changes on cash	153	(41 )	(35 )

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Net increase in cash and cash equivalents	2,336	2,717	3,408
Cash at beginning of year	6,534	3,818	410
Cash at end of year	\$8,871	\$6,534	\$3,818

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid during the year for:

Income taxes	\$4,423	\$2,685	\$2,810
Interest	658	860	25

See accompanying notes to financial statements.

UTAH MEDICAL PRODUCTS, INC.  
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY  
Years Ended December 31, 2012, 2011 and 2010  
(In thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total Stockholders' Equity
Balance at December 31, 2009	3,612	\$ 36	\$ -	\$ (994 )	\$ 38,939	\$ 37,981
Shares issued upon exercise of employee stock options for cash	27	0	497	-	-	497
Shares received and retired upon exercise of stock options	(3 )	(0 )	(73 )	-	-	(73 )
Tax benefit attributable to appreciation of stock options	-	-	38	-	-	38
Stock option compensation expense	-	-	83	-	-	83
Common stock purchased and retired	(18 )	(0 )	(439 )	-	-	(439 )
Foreign currency translation adjustment	-	-	-	(326 )	-	(326 )
Unrealized holding gain (loss) from investments, available-for-sale, net of taxes	-	-	-	45	-	45
Common stock dividends	-	-	-	-	(6,030 )	(6,030 )
Net income	-	-	-	-	6,014	6,014
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,	-	-	-	(3 )	-	(3 )

available-for-sale, net of taxes						
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

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, 2012 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, 2012 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 2012 year-end 1.626 USD/GBP currency exchange rate, is about \$2,656 in 2013, \$2,651 in 2014 and 2015, \$2,618 in 2016 and \$2,602 in 2017 (see note 2).

## Loans to Related Parties

As a general policy, the Company does not make loans to related entities including employees, directors, shareholders, suppliers or customers. UTMD was able to manage its A/R balances to achieve an average aging of 35 days from date of invoice by the end of the 2012 year, and A/R balances over 90 days from date of invoice to 1% of total A/R. Both of these measures are historically lower than normal. As an exception in 2009, the Company extended partial payment terms to an OEM customer that converted to a three-year term loan of \$70 on July 1, 2010. The balance on the note was \$15 at year-end 2012. The loan is secured by personal guarantees provided by the principals of the customer. UTMD believes that this was a wise use of its liquidity to build goodwill with a customer at an unusual time, which should ultimately help grow UTMD's business.

Note 1 – Summary of Significant Accounting Policies (continued)

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.

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 2009. 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 2010 through 2012.

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. The reserve for legal costs at December 31, 2012 and 2011 was \$200 and \$301, 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:

	2012	2011	2010
	3,677	3,631	3,621

Weighted average number of shares outstanding – basic			
Dilutive effect of stock options	34	14	22
Weighted average number of shares outstanding, assuming dilution			
	3,711	3,645	3,643

#### 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 2012 sales were to customers who are tax exempt or who are in jurisdictions where UTMD is not required to withhold sales tax.

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

## Stock-Based Compensation

At December 31, 2012, 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 2012, the Company recognized \$70 in compensation cost compared to \$95 in 2011 and \$83 in 2010.

## 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, 2012	2011
Accounts and other receivables:		
Accounts receivable	\$ 3,991	\$ 4,584
Income tax receivable	339	161
Accrued interest and other	142	113
Less allowance for doubtful accounts	(132 )	(124 )
Total accounts and other receivables	\$ 4,341	\$ 4,734
Inventories:		
Finished products	\$ 1,630	\$ 2,518
Work-in-process	938	795
Raw materials	1,785	1,692
Total inventories	\$ 4,353	\$ 5,005
Other intangible assets:		
Patents	\$ 2,070	\$ 2,017
Non-compete agreements	163	155
Trademarks & trade names	11,877	11,361
Customer relationships	11,625	11,109
Regulatory approvals & product certifications	15,507	14,819
Total other intangible assets	41,242	39,461
Accumulated amortization	(6,758 )	(4,012 )
Other intangible assets, net	\$ 34,484	\$ 35,449
Accrued expenses:		
Income taxes payable	\$ 1,382	\$ 1,069
Payroll and payroll taxes	875	1,475

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Reserve for litigation costs	200	301
Other	364	431
Total accrued expenses	\$ 2,821	\$ 3,276



## Note 3 – Investments

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

	December 31, 2012	2011
Investments, at cost	\$ 42	\$ 380
Equity securities:		
-Unrealized holding gains	-	
-Unrealized holding (losses)	-	(316 )
Investments, at fair value	\$ 42	\$ 64.

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, 2012	2011
Balance, beginning of year	\$ (193 )	\$ (190 )
Realized loss from securities included in beginning balance	12	18
Gross unrealized holding gains (losses) in equity securities	14	(23 )
Impairment loss	290	-
Deferred income taxes on unrealized holding loss	(123 )	2
Balance, end of year	\$ -	\$ (193 )

During 2012, 2011 and 2010, UTMD had proceeds from sales of available-for-sale securities of \$47, \$15,155 and \$5,839, 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 Quoted market prices in active markets for identical assets or liabilities;

1

Level 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);

2

Level Unobservable inputs for the asset or liability, which are valued based on management's estimates of 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	
	2012	2011	2012	2011	2012	2011
Equities	42	64	-	-	42	64
Total	\$ 42	\$ 64	-	-	\$ 42	\$ 64

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, 2012 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, 2012	2011
Land	\$ 1,379	\$ 1,372
Buildings and improvements	10,385	10,309
Furniture, equipment and tooling	15,347	14,983
Construction-in-progress	49	179
Total	27,160	26,843
Accumulated depreciation	(18,732 )	(18,038 )
Property and equipment, net	\$ 8,428	\$ 8,805

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

	December 31, 2012			
	Utah	England	Ireland	Total
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

	December 31, 2011			
	Utah	England	Ireland	Total
Land	\$ 926	\$ -	\$ 446	\$ 1,372
Building and improvements	5,589	-	4,720	10,309
Furniture, equipment and tooling	13,456	600	927	14,983
Construction-in-progress	168	-	11	179
Total	20,139	600	6,104	26,843
Accumulated depreciation	(15,582 )	(101 )	(2,355 )	(18,038 )
Property and equipment, net	\$ 4,557	\$ 500	\$ 3,748	\$ 8,805

## 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 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 have been made by UTMD.

## 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

## Pro forma Information

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

	Year ended December 31, 2012 (as reported)	Year ended December 31, 2011
Revenue	\$ 41,552	\$ 41,780
Net income	10,169	8,235

Pro forma net income of \$8,235 for the year ended December 31, 2011 does not include \$341 in UTMD legal costs directly attributable to the acquisition, and \$1,765 in Femcare expenses for employee shareholder bonuses, loan redemption premium related to termination of ownership, buy-out of warrants, financial advisory fees and an insurance premium for sellers' liability which are directly attributable to the acquisition.

## 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, 2012. Based on UTMD's financial position, the bank's margin was 2.00% at December 31, 2012. The principal balance on this note at December 31, 2012 was \$4,550.

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, 2012 was \$8,455.

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

The following table shows estimated minimum required principal reduction of the notes during the next five years using the December 31, 2012 interest and currency exchange rates and starting with the December 31, 2012 balance of \$13,005:

Year	Payments	Interest	Principal	Ending Balance
2013	\$ 4,456	\$ 454	\$ 4,002	\$ 9,003
2014	4,293	291	4,001	5,002
2015	4,130	129	4,002	1,000
2016	1,007	7	1,000	-
2017	-	-	-	-
Total	\$ 13,886	\$ 881	\$ 13,005	

## 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 leases its UK facilities, and automobiles for sales representatives in England and Ireland. The Company leased its CMI building in Oregon until its lease expired on May 31, 2010. Rent expense charged to operations under these operating lease agreements was approximately \$258, \$194 and \$62 for the years ended December 31, 2012, 2011 and 2010, respectively.

Future minimum lease payments under its lease obligations as of December 31, 2012 were as follows:

Years ending  
December  
31: Amount

2013	\$ 210
2014	191
2015	82
2016	44
2017	46
Thereafter	674

Total future  
minimum  
lease  
payments \$ 1,248



Note 8 – Commitments and Contingencies (continued)

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.

Product Liability

Except for its Femcare subsidiary, 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, 2012 or December 31, 2011.

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.

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, 2012		2011	
	Current	Long-term	Current	Long-term
Inventory write-downs and differences due to UNICAP	\$ 75	\$ -	\$ 76	\$ -
Allowance for doubtful accounts	22	-	22	-
Accrued liabilities and reserves	122	-	127	-
Other - foreign	119	(86 )	108	(75 )
Depreciation and amortization	-	(8,687 )	-	(9,285 )
Unrealized investment loss	113	-	-	123
Deferred income taxes, net	\$ 451	\$ (8,773 )	\$ 333	\$ (9,237 )

The components of income tax expense are as follows:

	Years ended December 31,		
	2012	2011	2010
Current	\$ 4,960	\$ 4,287	\$ 3,022
Deferred	(592 )	(621 )	4
Total	\$ 4,368	\$ 3,666	\$ 3,026

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

	Years ended December 31,		
	2012	2011	2010
Federal income tax expense at the statutory rate	\$ 2,741	\$ 2,650	\$ 2,914
State income taxes	266	257	283
Foreign income taxes (blended rate)	1,603	877	74
ETI, manufacturing deduction and tax credits	(266 )	(270 )	(275 )
Other	24	152	30
Total	\$ 4,368	\$ 3,666	\$ 3,026

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

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	Years ended December 31,		
	2012	2011	2010
Domestic	\$ 7,989	\$ 7,795	\$ 8,571
Foreign	6,548	3,285	469
Total	\$ 14,537	\$ 11,080	\$ 9,041

## 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 1,021,772 shares of common stock, of which 149,527 are outstanding as of December 31, 2012. 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 Per Share	
2012			
		33.30	
Granted	13,000	\$ -	\$ 33.30
		24.00	
Expired or canceled	19,393	-	28.13
		15.01	
Exercised	82,386	-	31.33
		17.71	
Total outstanding at December 31	149,527	-	33.30
		17.71	
Total exercisable at December 31	120,420	-	31.33
2011			
		26.52	
Granted	67,200	\$ -	\$ 26.75
		24.00	
Expired or canceled	24,612	-	31.33
		9.13	
Exercised	21,220	-	25.59
		15.01	
Total outstanding at December 31	238,306	-	31.33
		15.01	
Total exercisable at December 31	172,027	-	31.33
2010			
		28.06	
Granted	7,700	\$ -	\$ 28.06
		17.71	
Expired or canceled	5,243	-	31.33
		6.75	
Exercised	27,230	-	28.13
		9.13	
Total outstanding at December 31	216,938	-	31.33
		9.13	
Total exercisable at December 31	173,178	-	31.33

For the years ended December 31, 2012, 2011 and 2010, the Company reduced current income taxes payable and increased additional paid-in capital by \$178, \$34 and \$38, 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 2012, the Company recognized \$70 in equity compensation cost, compared to \$95 in 2011 and \$83 in 2010.

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,					
	2012		2011		2010	
Expected dividend amount per quarter	\$	0.2571	\$	0.2449	\$	0.2471
Expected stock price volatility		22.8 %		22.8 %		22.0 %
Risk-free interest rate		0.54 %		1.19 %		2.08 %
Expected life of options		3.8 years		3.6 years		4.5 years

The per share weighted average fair value of options granted during 2012, 2011 and 2010 is \$3.92, \$3.09 and \$3.71, respectively.

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.

## Note 10 – Options (continued)

The following table summarizes information about stock options outstanding at December 31, 2012:

Range of Exercise Prices	Options Outstanding			Options Exercisable		
	Number	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number	Weighted Average Exercise Price	
Outstanding	(Years)	Price	Exercisable	Price		
17.71 -						
\$ 24.02	51,034	4.88	\$ 22.79	48,107	\$ 22.71	
25.59 -						
25.59	23,662	1.08	25.59	23,662	25.59	
26.52 - 33.30	74,831	6.45	29.68	48,651	29.52	
17.71 -						
\$ 33.30	149,527	5.07	\$ 26.68	120,420	\$ 26.03	

## Note 11 – Geographic Sales Information

The Company had sales in the following geographic areas:

	2012	2011	2010
United States	\$ 19,955	\$ 18,853	\$ 17,431
Europe	9,286	7,821	3,367
Other	12,310	11,186	4,323

## Note 12 – Revenues by Product Category

The Company had revenues in the following product categories:

Product Category	2012	2011	2010
Obstetrics	\$ 5,194	\$ 5,742	\$ 5,940
Gynecology/Electrosurgery/Urology	23,141	19,196	5,888
Neonatal	6,539	6,951	7,295
Blood Pressure Monitoring and Accessories	6,678	5,971	5,998

Note 13 - 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 2010 there were no patents under which UTMD received royalties from other parties. In 2012 and 2011, UTMD received royalties of \$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 14 – 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 \$161, \$209 and \$103 for the years ended December 31, 2012, 2011 and 2010, respectively.

Note 15 – 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 16 – Subsequent Events

The Company evaluated its December 31, 2012 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 2012, 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, 2012, 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, 2012. 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 34 through 38 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, 2012, and there were no material weaknesses.

ITEM 9B – OTHER INFORMATION

None.





### PART III

#### ITEM 10 – DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information from the definitive proxy statement of the registrant for the 2012 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: 2012 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 2013 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 2013 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 2013 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 2013 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 2013 annual meeting of shareholders under the caption “PROPOSAL NO 3. 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.

SEC		Title of Document	Location
Exhibit #	Reference #		
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 (3)
5	4	Designation of Rights, Privileges, and Preferences of Series “A” Preferred Stock	Incorporated by Reference (2)
6	10	Employment Agreement dated December 21, 1992 with Kevin L. Cornwell*	Incorporated by Reference (4)
7	10	Amendment, effective May 15, 1998, to Employment Agreement dated December 21, 1992 with Kevin L. Cornwell*	Incorporated by Reference (4)
8	10	Utah Medical Products, Inc., 2003 Employees’ and Directors’ Incentive Plan*	Incorporated by Reference (5)
9	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 (6)
10	10		

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Credit Agreement dated as of March 17, 2011 among Incorporated by  
Utah Medical Products, Inc., as Borrower, and Reference (6)  
JPMorgan Chase Bank, N.A., as Lender

11	10	Facility Agreement dated 18 March 2011 for Incorporated by Femcare Group Limited as Borrower with JPMorgan Reference (6) Chase Bank, N.A., London Branch as Lender
12	10	First Modification Agreement dated as of September Incorporated by 23, 2011 among Utah Medical Products, Inc., as Reference (7) Borrower, and JPMorgan Chase Bank, N.A., as Lender
13	10	Second Modification Agreement dated as of Incorporated by December 7, 2012 among Utah Medical Products, Reference (8) Inc., as Borrower, and JPMorgan Chase Bank, N.A., as Lender
14	10	Summary of Officer and Director Compensation This Filing
15	21	Subsidiaries of Utah Medical Products, Inc. This Filing

Exhibit #	SEC Reference #	Title of Document	Location
16	23	Consent of Jones Simkins LLC, Company's independent auditors for the years ended December 31, 2012, December 31, 2011 and December 31, 2010	This Filing
17	23	Consent of The Norton Practice, Femcare Group Limited's independent auditors for the years ended December 31, 2012 and December 31, 2011	This Filing
18	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
19	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
20	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
21	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 registration statement on form S-8 filed with the Commission effective February 10, 1995.

- (3) Incorporated by reference from the Company's report on form 8-K filed with the Commission on October 1, 2004.
- (4) Incorporated by reference from the Company's annual report on form 10-K filed with the Commission for the year ended December 31, 2003.
- (5) Incorporated by reference from the Company's annual report on form 10-K filed with the Commission for the year ended December 31, 2002.
- (6) Incorporated by reference from the Company's report on form 8-K filed with the Commission on March 23, 2011.
- (7) Incorporated by reference from the Company's report on form 8-K filed with the Commission on September 26, 2011.
- (8) 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 6th day of March, 2013.

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 6th day of March, 2013.

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