TRI VALLEY CORP
Form 10-K/A
April 25, 2007

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K/A-1
AMENDMENT NO. 1 TO THE
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2006 Commission File No. 001-31852

TRI-VALLEY CORPORATION
(Exact Name of Registrant as Specified in its Charter)

Delaware	84-0617433
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

4550 California Avenue, Suite 600, Bakersfield, California 93309
(Address of Principal Executive Offices)

Registrant's Telephone Number Including Area Code: **(661) 864-0500**

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Name of exchange on which registered
Common Stock, $0.001 par value	American Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act:

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such requirement for the past 90 days.

Yes [x] No [ ]

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-K contained in this form, and no disclosure will be contained to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K, if applicable, or any amendment to this Form 10-K. [x]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non accelerated filer.

Large accelerated filer [ ] Accelerated filer [x] Non-accelerated filer [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes [ ] No [x]

As of February 28, 2007, 24,186,655 common shares were issued and outstanding.

The aggregate market value of the common shares of Tri-Valley Corporation held by non-affiliates on the last day of the registrant's most recently completed second fiscal quarter was approximately $165 million.

DOCUMENTS INCORPORATED BY REFERENCE: None

INTRODUCTORY STATEMENT

In the fourth quarter of 2006, Tri-Valley sold its 50% interest in Tri-Western Resources, LLC. In this Amendment No. 1 to Form 10-K, Tri-Valley's Consolidated Statements of Operations have been revised to show The costs of operation of Tri-Western in the years ended December 31, 2006, 2005 and 2004, as losses from discontinued operations, which were recouped and included in a gain on sale of Tri-Western of approximately $9.7 million in 2006. The net losses from operations in each period have not changed.

Note 12 to the Consolidated Financial Statements has also been revised to properly reflect the effects of the sale of the Tri-Western interest as a discontinued operation in each reporting period.

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PART I

ITEM 1 Business

Tri-Valley Corporation ("TVC" or the Company), a Delaware corporation formed in 1971, is in the business of exploring, acquiring and developing petroleum and metal and mineral properties and interests therein. Tri-Valley has five subsidiaries and four operating segments or business lines. The results of these four segments are presented in Note 9 to the Consolidated Financial Statements.

- Tri-Valley Oil & Gas Company ("TVOG") operates the oil & gas activities. TVOG derives the majority of its revenue from oil and gas drilling and turnkey development. TVOG primarily generates its own exploration prospects from its internal database, and also screens prospects from other geologists and companies. TVOG generates these geological "plays" within a certain geographic area of mutual interest. The prospect is then presented to potential co-ventures. The company deals with both accredited individual investors and energy industry companies. TVOG serves as the operator of these co-ventures. TVOG operates both the oil and gas production segment and the drilling and development segment of our business lines.

- Select Resources Corporation ("Select") was created in late 2004 to manage, grow and operate Tri-Valley's mineral interests. Select operates the Minerals segment of our business lines. Prior to November 2006, Select owned 50% of Tri-Western Resources, LLC, a developer of industrial mineral operations. Select sold its interest in Tri-Western Resources to the other 50% joint venturer on November 15, 2006.

- Great Valley Production Services, LLC, ("GVPS") was formed in 2006 to operate oil production services, well work over and drilling rigs, primarily for TVOG. Tri-Valley has sold 49% of the ownership interest to private parties and has retained a 51% ownership interest in this subsidiary. Operations began in the third quarter of 2006. However, from time to time TVOG may contract various units to third parties when not immediately needed for TVOG projects.

- Great Valley Drilling Company, LLC ("GVDC") was formed in 2006 to operate oil drilling rigs, primarily in Nevada where Tri-Valley has 17,000 acres of prospective oil leases. However, because rig availability is so extremely scarce in Nevada, GVDC has an exceptional opportunity to do contract drilling for third parties in both petroleum and geothermal projects. For the time being GVDC, whose operation began in the first quarter of 2007, expects its primary activity will be contract drilling for third parties. Tri-Valley has sold 49% of the ownership interest to private parties and has retained a 51% ownership interest in this subsidiary.

- Tri-Valley Power Corporation is inactive at the present time.

We sell substantially all of our oil and gas production to Pacific Summit Energy and Big West of California. Other gatherers of oil and gas production operate within our area of operations in California, and we are confident that if these companies ceased purchasing our production we could find another purchaser on similar terms with no adverse consequences to our income or operations.

In 1987, we acquired precious metals claims on Alaska state lands. We have conducted exploration operations on these properties and have reduced our original claims to a block of approximately 28,720 acres (44.9 square miles). We have conducted trenching, core drilling, bulk sampling and assaying activities to date and have reason to believe that mineralization exists to justify additional exploration activities. While the management and our technical team believe these properties hold considerable promise from data secured to date, we have not defined proven or probable mineral reserves on these properties. There is no assurance that a commercially viable mineral deposit exists on any of these above mentioned mineral properties. Further exploration is required before a final evaluation as to the economic and legal feasibility can be determined. The same is true for other mineral properties acquired in 2005 and 2006.

In 2004, Select entered into a 50% - 50% industrial mineral joint venture with a private company through the formation of Tri-Western Resources to pursue the development of calcium carbonate, basalt minerals, and cinder in

Southern California. The opportunity to sell our interest to our joint venture partner was presented to us during 2006, and we finalized the sale on November 15, 2006 in order to redeploy the capital into ventures we believe will increase share value at a faster rate. (see Note 12 to the Consolidated Financial Statements)

In 2005, we transferred our existing gold exploration properties located near Richardson and Livengood, Alaska and our interest in Tri-Western Resources to Select, our new subsidiary. In 2005, Select also entered into mineral leases on precious metals properties south of Dawson, Yukon, and acquired a calcium carbonate mine, located northwest of Ketchikan, Alaska. The latter is a very high grade, high bright deposit deemed to be among the top 1% of deposits in the world. The mine is in a care and maintenance mode while Select arranges a customer base before restarting the mine.

In late 2005 - early 2006, exploration activities were conducted on all three gold properties. The Yukon property was dropped in 2006 due to disappointing results. Further exploration is required on each of the other two gold properties before an evaluation as to the economic and technical feasibility can be determined. Select also seeks to acquire and develop additional metal and industrial mineral properties.

Competition

The oil and gas industry is highly competitive in all its phases, including both our drilling segment and our production segment. Competition is particularly intense with respect to the acquisition of desirable producing properties, the acquisition of oil and gas prospects suitable for enhanced production efforts, and the hiring of experienced personnel. Our competitors in oil and gas acquisition, development, and production include the major oil companies in addition to numerous independent oil and gas companies, individual proprietors and drilling programs. Many of these competitors possess and employ financial and personnel resources substantially greater than those which are available to us and may be able to pay more for desirable producing properties and prospects and to define, evaluate, bid for, and purchase a greater number of producing properties and prospects than we can. Our financial and personnel resources to generate reserves in the future will be dependent on our ability to select and acquire suitable producing properties and prospects in competition with these companies. At year-end 2006, we had 16 employees in the oil and gas operations segment of our business.

The rig operations industry is very competitive. Our drilling subsidiaries are able to charge the prevailing rates of the industry and we are able to keep our available rigs and crews contracted. We are competing with other oilfield services companies and other industries for personnel to crew our workover and drilling rig operation, which is very challenging as we continue to rapidly increase our operations. This segment of our business is new in 2006 and had 15 employees at December 31, 2006, which has increased to 38 employees as of March 10, 2007.

The Company's drilling and development segment is also competitive in that we are competing with other oil exploration companies, drilling partnerships and other investment alternatives in order to secure funds. In order to secure funds for those prospects that we have acquired, we have a continuing need for new funds. The employees of this segment of our business are included in the totals in our oil and gas industry segment because these functions are not tracked separately.

The mining industry is also highly competitive. Competition is particularly intense with respect to the acquisition of mineral prospects and deposits suitable for exploration and development, the acquisition of proven and probable reserves, and the hiring of experienced personnel. Our competitors in mineral property exploration, acquisition, development, and production include the major mining companies in addition to numerous intermediate and junior mining companies, mineral property investors, and individual proprietors. Many of these competitors possess and employ financial and personnel resources substantially greater than those that are available to us and may be able to pay more for desirable mineral properties and prospects and to define, evaluate, bid for, and purchase a greater number of mineral properties and prospects than we can. Our financial and personnel resources to generate mineral reserves and resources in the future will be dependent on our ability to identify, select and acquire suitable mineable properties and prospects in competition with these companies. We had four employees in this segment of our business at year-end 2006.

Governmental Regulation

Domestic exploration for the production and sale of oil and gas is extensively regulated at both the federal and state

levels. Legislation affecting the oil and gas industry is under constant review for amendment or expansion, frequently increasing the regulatory burden. Also, numerous departments and agencies, both federal and state, are authorized by statute to issue, and have issued, rules and regulations affecting the oil and gas industry, which often are difficult and costly to comply with, and which carry substantial penalties for noncompliance. State statutes and regulations require permits for drilling operations, drilling bonds, and reports concerning operations. Most states in which we will operate also have statutes and regulations governing conservation matters, including the unitization or pooling of properties and the establishment of maximum rates of production from wells. Many state statutes and regulations may limit the rate at which oil and gas could otherwise be produced from acquired properties. Some states have also enacted statutes prescribing ceiling prices for natural gas sold within their states. Our operations are also subject to numerous laws and regulations governing plugging and abandonment, the discharge of materials into the environment or otherwise relating to environmental protection. The heavy regulatory burden on the oil and gas industry increases its costs of doing business and consequently affects its profitability. We cannot be sure that a change in such laws, rules, regulations, or interpretations, will not harm our financial condition or operating results.

Domestic exploration, development and operation of minerals and metals is extensively regulated at both the federal and state levels. Legislation affecting the mineral industry is under constant review for amendment or expansion, frequently increasing the regulatory burden. Also, numerous departments and agencies, both federal and state, are authorized by statute to issue, and have issued, rules and regulations affecting the mineral industry that often are difficult and costly to comply with and which carry substantial penalties for noncompliance. State statutes and regulations require permits for exploration, including drilling, construction and operational permits, reclamation bonds, and reports concerning operations. Our activities are subject to numerous laws and regulations reclamation and abandonment, the discharge of materials into the environment or otherwise relating to environmental protection. Our activities are also subject to numerous laws and regulations related to health and safety of mine and mine related workers. The heavy regulatory burden on the mineral industry increases its costs of doing business and consequently affects its profitability. Delays in obtaining or failure to obtain government permits and approvals may adversely impact our activities. The regulatory environment in which Select Resources operates could change in ways that would substantially increase costs to achieve compliance, or otherwise could have a material adverse effect on Select Resources' activities or financial position.

Environmental Regulation

Energy Operations

Our energy operations are subject to risks of fire, explosions, blow-outs, pipe failure, abnormally pressured formations and environmental hazards, such as oil spills, natural gas leaks, ruptures or discharges of toxic gases, the occurrence of any of which could result in substantial losses due to injury or loss of life, severe damage to or destruction of property, natural resources and equipment, pollution or other environmental damage, clean-up responsibilities, regulatory investigation and penalties and suspension of operations. In accordance with customary industry practice, we maintain insurance against these kinds of risks, but we cannot be sure that our level of insurance will cover all losses in the event of a drilling or production catastrophe. Insurance is not available for all operational risks, such as risks that we will drill a dry hole, fail in an attempt to complete a well or have problems maintaining production from existing wells.

Oil and gas activities can result in liability under federal, state, and local environmental regulations for activities involving, among other things, water pollution and hazardous waste transport, storage and disposal. Such liability can attach not only to the operator of record of the well, but also to other parties that may be deemed to be current or prior operators or owners of the wells or the equipment involved. Numerous governmental agencies issue rules and regulations to implement and enforce such laws, which are often difficult and costly to comply with and which carry substantial administrative, civil and criminal penalties and in some cases injunctive relief for failure to comply. Some laws, rules and regulations relating to the protection of the environment may, in certain circumstances, impose "strict liability" for environmental contamination. These laws render a person or company liable for environmental and natural resource damages, cleanup costs and, in the case of oil spills in certain states, consequential damages without regard to negligence or fault. Other laws, rules and regulations may require the rate of oil and gas production to be below the economically optimal rate or may even prohibit exploration or production activities in environmentally sensitive areas. In addition, state laws often require some form of remedial action, such as closure of inactive pits and plugging of abandoned wells, to prevent pollution from former or suspended operations.

The Federal Comprehensive Environmental Response, Compensation and Liability Act, or CERCLA, also known as the "Superfund" law, imposes liability, without regard to fault, on certain classes of persons with respect to the release of a "hazardous substance" into the environment. These persons include the current or prior owner or operator of the disposal site or sites where the release occurred and companies that transported disposed or arranged for the transport or disposal of the hazardous substances found at the site. Persons who are or were responsible for releases of hazardous substances under CERCLA may be subject to joint and several liability for the costs of cleaning up the hazardous substances that have been released into the environment and for damages to natural resources, and it is not uncommon for the federal or state government to pursue such claims. It is also not uncommon for neighboring landowners and other third parties to file claims for personal injury or property or natural resource damages allegedly caused by the hazardous substances released into the environment. Under CERCLA, certain oil and gas materials and products are, by definition, excluded from the term "hazardous substances." At least two federal courts have held that certain wastes associated with the production of crude oil may be classified as hazardous substances under CERCLA. Similarly, under the federal Resource, Conservation and Recovery Act, or RCRA, which governs the generation, treatment, storage and disposal of "solid wastes" and "hazardous wastes," certain oil and gas materials and wastes are exempt from the definition of "hazardous wastes." This exemption continues to be subject to judicial interpretation and increasingly stringent state interpretation. During the normal course of operations on properties in which we have an interest, exempt and non-exempt wastes, including hazardous wastes, that are subject to RCRA and comparable state statutes and implementing regulations are generated or have been generated in the past. The federal Environmental Protection Agency and various state agencies continue to promulgate regulations that limit the disposal and permitting options for certain hazardous and non-hazardous wastes.

Compliance with environmental requirements, including financial assurance requirements and the costs associated with the cleanup of any spill, could have a material adverse effect on our capital expenditures or earnings. These laws and regulations have not had a material affect on our capital expenditures or earnings to date. Nevertheless, changes in environmental laws have the potential to adversely affect operations. At this time, we have no plans to make any material capital expenditures for environmental control facilities.

Mineral Operations

Select's United States exploration and property development activities are subject to various federal and state laws and regulations governing the protection of the environment, including the Clean Air Act; The Federal Water Pollution Control Act (the Clean Water Act); Compensation and Liability Act, Toxic Substance Control Act (CERCLA); the Emergency Planning and Community Right-to-Know Act; the Endangered Species Act; the Federal Land Policy and Management Act; the National Environmental Policy Act; the Resource Conservation and Recovery Act (RECRA), the Safe Drinking Water Act; the Solid Waste Disposal Act;

the Toxic Substance Control Act; the Migratory Bird Treaty Act; the Federal Mine Safety and Health Act; the Rivers and Harbors Act; the Mining Law of 1872; the National Historic Preservation Act; and the Law Authorizing Treasury's Bureau of Alcohol, Tobacco and Firearms to Regulate Sale, Transport and Storage of Explosives, and related state laws. These laws and regulations are continually changing and are generally becoming more restrictive. Select Resources' activities in Canada are also subject to federal and provincial governmental regulations for the protection of the environment. In general, environmental regulations have not had, and are not expected to have, a material adverse impact on Select Resources' activities or our competitive position. Because we do not have active mining operations at present, these regulations have little impact on our current activities. In 2006, 2005 and 2004, the regulatory requirements had no significant effect on our precious metals or industrial mineral activities as we continued our exploration and project development efforts.

Select Resources is compliant with all laws and regulations imposed by the US Federal Government and the various states in which it operates for its activities. We conduct our operations so as to protect public health and environment and believe our activities are in compliance with applicable laws and regulations in all material respects. We have made, and expect to make in the future, expenditures to comply with such laws and regulations. We have made estimates of the amount of such expenditures, but cannot precisely predict the amount of such future expenditures. Estimated future reclamation costs are based principally on legal and regulatory requirements that are applicable to each individual property.

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Employees

We had a total of thirty-five employees on December 31, 2006. As of March 10, 2007, the Company had increased the number of employees to sixty-two. Twenty-three of the new employees were added to our rapidly expanding rig operations segment.

Available Information

We file annual and quarterly reports, proxy statements and other information with the Securities and Exchange Commission using SEC's EDGAR system. The SEC maintains a site on the Internet at http://www.sec.gov that contains reports, proxy and information statements and other information regarding us and other registrants that file reports electronically with the SEC. You may read and copy any materials that we file with the SEC at its Public Reference Room at 450 5th Street, N.W., Washington, D.C. 20549. Our common stock is listed on the American Stock Exchange, under the symbol TIV. Please call the SEC at 1-800-SEC-0330 for further information about their public reference rooms. Our website is located at http://www.tri-valleycorp.com.

We furnish our shareholders with a copy of our annual report on Form 10-K, which contains audited financial statements, and such other reports as we, from time to time, deem appropriate or as may be required by law. We use the calendar year as our fiscal year.

ITEM 1A Risk Factors

In addition to the other information contained in this Form 10-K, the following risk factors should be considered in evaluating our business.

Risks Involved in Oil and Gas Operations

Our success depends heavily on market conditions and prices for oil and gas

.

Our success depends heavily upon our ability to market oil and gas production at favorable prices. In recent decades, there have been both periods of worldwide overproduction and underproduction of hydrocarbons and periods of increased and relaxed energy conservation efforts. As a result the world has experienced periods of excess supply of, and reduced demand for, crude oil on a worldwide basis and for natural gas on a domestic basis; these periods have been followed by periods of short supply of, and increased demand for, crude oil and to a lesser extent, natural gas. The excess or short supply of oil and gas has placed pressures on prices and has resulted in dramatic price fluctuations.

Estimating oil and gas reserves leads to uncertain results and thus our estimates of value of those reserves could be incorrect

.

While the Company has always had its holdings annually estimated by a qualified, independent engineering firm, the process of estimating oil and gas reserves is complex, requiring significant decisions and assumptions in the evaluation of available geological, geophysical, engineering and economic data for each reservoir. As a result, such estimates are inherently imprecise. Actual future production, oil and gas prices, revenues, taxes, development expenditures, operating expenses and quantities of recoverable oil and gas reserves may vary substantially from those estimated in reserve reports that we periodically obtain from independent reserve engineers.

Any significant variance in these assumptions could materially change the estimated quantities and present value of our reserves. In addition, our proved reserves may be subject to downward or upward revision based upon production history, results of future exploration and development, prevailing oil and gas prices and other factors, many of which are beyond our control. Actual production, revenues, taxes, development expenditures and operating expenses with respect to our reserves will likely vary from the estimates used, and such variances may be material.

Continued production of oil and gas depends on our ability to find or acquire additional reserves, which we may not be able to accomplish

.

In general, the volume of production from oil and gas properties declines as reserves are produced. Except to the

extent that we acquire properties containing proved reserves or conduct successful development and exploitation activities, or both, our proved reserves will decline as reserves are produced. Our future oil and gas production is, therefore, highly dependent upon our ability to find or acquire additional reserves. The business of acquiring, enhancing or developing reserves is capital intensive. We require cash flow from operations as well as outside investments to fund our acquisition and development activities. If our cash flow from operations is reduced and external sources of capital become limited or unavailable, our ability to make the necessary capital investment to maintain or expand our asset base of oil and gas reserves would be impaired.

The unavailability or high cost of drilling rigs, equipment, supplies, personnel and oil field services could adversely affect our ability to execute our exploration and development plans on a timely basis and within our budget.

Our industry is cyclical and, from time to time, there is a shortage of drilling rigs, equipment, supplies or qualified personnel. During these periods, the costs and delivery times of rigs, equipment and supplies are substantially greater. In addition, the demand for, and wage rates of, qualified drilling rig crews rise as the number of active rigs in service increases. As a result of increasing levels of exploration and production in response to strong prices of oil and natural gas, the demand for oilfield services has risen, and the costs of these services are increasing, while the quality of these services may suffer. The unavailability or high cost of drilling rigs, equipment, supplies or qualified personnel has become particularly severe in California and has materially and adversely affected us because our operations and properties are concentrated in those areas. However, in late 2005, the Company acquired six production rigs and is currently in the process of converting four into rigs that can also drill. The Company has also acquired one medium deep drilling rig.

Our oil and gas reserves are concentrated in California

.

Because we are not diversified geographically, local conditions may have a greater effect on us than on other companies. Substantially all of our oil and gas reserves are located in California. Because our reserves are not diversified geographically, our business is more subject to local conditions than other, more diversified companies.

Oil and gas drilling and production activities are subject to numerous mechanical and environmental risks that could cause less production

.

These risks include the risk that no commercially productive oil or gas reservoirs will be encountered, that operations may be curtailed, delayed or canceled and that title problems, weather conditions, compliance with governmental requirements, mechanical difficulties or shortages or delays in the delivery of drilling rigs and other equipment may limit our ability to develop, produce or market our reserves. New wells we drill may not be productive and we may not recover all or any portion of our investment in the well.

Drilling for oil and gas may involve unprofitable efforts, not only from dry wells but also from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. In addition, our properties may be susceptible to hydrocarbon drainage from production by other operators on adjacent properties.

Industry operating risks include the risks of fire, explosions, blow-outs, pipe failure, abnormally pressured formation and environmental hazards, such as oil spills, natural gas leaks, ruptures or discharges of toxic gases, the occurrence of any of which could result in substantial losses due to injury or loss of life, severe damage, clean-up responsibilities, regulatory investigation and penalties and suspension of operations. In accordance with customary industry practice, we maintain insurance against these kinds of risks, but our level of insurance may not cover all losses in the event of a drilling or production catastrophe. Insurance is not available for all operational risks, such as risks that we will drill a dry hole, fail in an attempt to complete a well or have problems maintaining production from existing wells.

Oil and gas activities can result in liability under federal, state, and local environmental regulations for activities involving among other things, water pollution and hazardous waste transport, storage and disposal. Such liability can attach not only to the operator of record of the well, but also to other parties that may be deemed to be current or prior operators or owners of the wells or the equipment involved. Environmental laws could subject us to liabilities for environmental damages even where we are not the operator who caused the environmental damage.

Drilling is a speculative activity, because assessments of drilling prospects are inexact

.

The successful acquisition of oil and gas properties depends on our ability to assess recoverable reserves, future oil and gas prices, operating costs, potential environmental and other liabilities and other factors. Exploratory drilling remains a speculative activity. Even when fully utilized and properly interpreted, seismic data and other advanced technologies only assist geoscientists in identifying subsurface structures and do not enable the interpreter to know whether hydrocarbons are in fact present.

Therefore, our assessment of drilling prospects are necessarily inexact and their accuracy inherently uncertain. In connection with such an assessment, we perform a review of the subject properties that we believe to be generally consistent with industry practices. Such a review, however, will not reveal all existing or potential problems, nor will it permit us to become sufficiently familiar with the properties to fully assess their deficiencies and capabilities. Inspections may not always be performed on every well, and structural and environmental problems are not necessarily observable even when an inspection is undertaken.

In most cases, we are not entitled to contractual indemnification for pre-closing liabilities, including environmental liabilities and we generally acquire interests in the properties on an "as is" basis with limited remedies for breaches of representations and warranties. In those circumstances in which we have contractual indemnification rights for pre-closing liabilities, the seller may not be able to fulfill its contractual obligation. In addition, competition for producing oil and gas properties is intense and many of our competitors have financial and other resources, which are substantially greater than ours. Therefore, we may not be able to acquire producing oil and gas properties which contain economically recoverable reserves or that we make such acquisitions at acceptable prices.

Governmental regulations make production more difficult and production costs higher

.

Domestic exploration for the production and sale of oil and gas are extensively regulated at both the federal and state levels. Legislation affecting the oil and gas industry is under constant review for amendment or expansion, frequently increasing the regulatory burden. Also, numerous departments and agencies, both federal and state, are authorized by statute to issue, and have issued, rules and regulations affecting the oil and gas industry that often are difficult and costly to comply with and which carry substantial penalties for noncompliance. State statues and regulations require permits for drilling operations, drilling bonds and reports concerning operations. Most states in which we operate also have statutes and regulations governing conservation matters, including the unitization or pooling of properties and the establishment of maximum rates of production from wells. Many state statutes and regulations may limit the rate at which oil and gas could otherwise be produced from acquired properties. Some states have also enacted statutes proscribing ceiling prices for natural gas sold within their states. Our operations are also subject to numerous laws and regulations governing plugging and abandonment, the discharge of material into the environment or otherwise relating to environmental protection. The heavy regulatory burden on the oil and gas industry increases its cost of doing business and consequently affects its profitability. Any change in such laws, rules, regulations, or interpretations, may harm our financial condition or operating results.

Risks Involved in Our Mineral Exploration Business

Our industrial mineral operations have not yet begun to realize significant revenue

.

Select was formed in late 2004. Beginning in 2005, we invested a significant amount of capital in Select to enter into a joint venture, Tri-Western Resources, LLC, for the development and operation of industrial minerals deposits near Bakersfield, California and to acquire a calcium carbonate mine near Ketchikan, Alaska. We realized no significant revenue from our investment in Select or Tri-Western to date, and we cannot predict when, if ever, we may begin to see significant returns from these mining investments. In late 2006 we sold our interest in Tri-Western.

Our mining operations may not be profitable.

The economic value of mining operations may be adversely affected by:

Declines or changes in demand;

Declines in the market price of the various metals or minerals;

Increased production or capital costs;

Increasing environmental and/or permitting requirements and government regulations;

Reduction in the grade or tonnage of the deposit;

Increase in the dilution of the ore;

Reduced recovery rates;

Delays in new project development;

New, lower cost competitors;

Inability to hire and keep trained professionals;

Reductions in reserves; and

Write-downs of asset values.

Our operations may be adversely affected by risks and hazards associated with the mining industry that may not be fully covered by insurance.

Our business is subject to a number of risks and hazards including:

- Environmental hazards;
- Industrial accidents;
- Unusual or unexpected geologic formations; and

- Unanticipated hydrologic conditions, including flooding and periodic interruptions due to inclement or hazardous weather conditions.

Such risks could result in:

- Personal injury or fatalities;
- Damage to or destruction of mineral properties or producing facilities;
- Environmental damage; and
- Delays in exploration, development or mining.

For some of these risks, we maintain insurance to protect against these losses at levels consistent with our historical experience, industry practice and circumstances surrounding each identified risk. Insurance against environmental risks is generally either unavailable or, we believe, too expensive for us, and, therefore, we do not maintain environmental insurance. Occurrence of events for which we are not insured may affect our cash flow and overall profitability.

Risks Involved in Our Operations Generally

Forward Looking Statements

Some of the information in this 10-K contains forward-looking statements that involve substantial risks and uncertainties. You can identify these statements by forward-looking words such as "may," "will," "expect," "anticipate," "believe," "estimate" and "continue," or similar words. You should read statements that contain these words carefully because they:

- discuss our future expectations;
- contain projections of our future results of operations or of our financial condition; and
- state other "forward-looking" information.

We believe it is important to communicate our expectations. However, there may be events in the future that we are not able to accurately predict and/or over which we have no control. The risk factors listed in this section, other risk factors about which we may not be aware, as well as any cautionary language in this prospectus, provide examples of risks, uncertainties and events that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements. You should be aware that the occurrence of the events described in these risk factors could have an adverse effect on our business, results of operations and financial condition.

If we are unable to obtain additional funding our business operations will be harmed.

We believe that our current cash position and estimated 2007 cash from operations will be sufficient to meet our current estimated operating and general and administrative expenses and capital expenditures through the end of fiscal year 2007; however, the Company will require additional funding to complete our aggressive drilling activities. Although we have always been successful in the past attracting sufficient capital and have sufficient capital for 2007 operations, we do not know if additional financing will be available when needed, or if it is available, if it will be available on acceptable terms. Insufficient funds may prevent or limit us from implementing our full business strategy.

The departure of any of our key personnel would slow our operation until we could fill the position again.

Our success will depend in large part on the continued services of our president and chief executive officer, F. Lynn Blystone. Our employment agreement with Mr. Blystone ended at the end of 2006 and is awaiting formal extension through December 31, 2007 by the Board of Directors. On March 3, 2007, the Board elected Mr. Blystone to the additional post of Chairman. The loss of his services would be particularly detrimental to us because of his background and experience in the oil and gas industry. We carry key man insurance of $500,000 on Mr. Blystone's life.

We also consider our chief administrative officer, Thomas J. Cunningham, and the president of our TVOG subsidiary, Joseph R. Kandle, to be key employees whose loss would be detrimental to us because of their oil and gas industry experience. We do not have employment contracts with either Mr. Cunningham or Mr. Kandle. We carry key man life insurance of $1,000,000 on Mr. Kandle, and no key man insurance on Mr. Cunningham.

We consider the president of our mining subsidiary, Dr. Henry J. Sandri, to also be a key employee. We have no employment contract in place but carry a key man life insurance policy of $1,000,000.

ITEM 2 Properties

Our headquarters and administrative offices are located at 4550 California Avenue, Suite 600, Bakersfield, California 93309. We lease approximately 10,300 square feet of office space at that location. Our principal properties consist of proven and unproven oil and gas properties, mining claims on unproven precious metals properties, maps and geologic records related to prospective oil and gas and unproven precious metal properties, office and other equipment. TVOG has a worldwide geologic library with data on every continent except Antarctica including over 700 leads and prospects in California, our present area of emphasis, along with more than 20,000 line miles of digitized 2-D seismic, the workhorse of the majority of the seismic in California.

Oil and Gas Operations

In 2005, Tri-Valley acquired several oil and gas properties and transferred them to the Opus-I Partnership for development. Tri-Valley receives a 25% carried working interest in the initial wells drilled on these properties and will pay its 25% pro rata share of subsequent development drilling and operations on the properties.

The Temblor Valley property in Kern County consists of two producing oil properties, one in the South Belridge Oil Field contains 50 wells, 25 producing, 24 idle and 1 injector well. The other property is in the Edison Oil Field and consists of 7 wells, 3 producing, 3 idle and 1 injector well. During 2006, we drilled two additional wells in South Belridge, the Lundin-Weber D-352-30 and the Lundin-Weber D-540-30. Our plan for 2007 is to return 15 idle wells in South Belridge to production and drill additional wells this year.

In September 2006, TVOG, as operator for the Opus partnership, completed and fraced the Lundin-Weber D-352-30 with 500,000 pounds of sand in a three stage frac in the South Belridge field. We are still evaluating the frac job in the diatomite zone. We are planning on steam stimulating the fractures themselves.

In December 2006, the Lundin-Weber D-540-30 was drilled and completed in the diatomite zone. The well is currently waiting on the steam results from the Lundin-Weber D-352 and will be steam stimulated following those results.

Another property is in Ventura County and is comprised of three leases in the Oxnard Oil Field. This is referred to as the Pleasant Valley property. During 2007, the Company plans to drill and core a vertical Vaca well followed by plugging back and then drilling the same well bore horizontally 1,000 feet into the Vaca zone. Depending on the results, other wells may be drilled horizontally

The Company purchased, for its own account, approximately 6,670 acres of mineral rights, which basically covers what was the Chowchilla Ranch Gas Field in Madera County, California. This land position is held by a single producing gas well at this time. Tri-Valley believes this land position to be very under developed and under exploited and plans to re-enter, recomplete and further infill drill the leasehold position. Tri-Valley has also leased an approximate additional 7,500 acres offsetting the 6,670 acre Chowchilla property.

In 2005, the Company successfully hydraulically fractured the Ekho #1 well in the Vedder Zone of completion in the interval between 18,018' and 18,525' injecting approximately 5,000 barrels of fluid, which carried approximately 118,000-pounds of bauxite propping material. While very successful mechanically, the operation did not result in the well producing hydrocarbons at commercial rates. This well still has multiple targets to evaluate further up the hole. The Company has been reviewing the resulting data from the fracturing operation both internally and with outside firms as it believes the potential reserve of the Vedder Zone deserves that degree of attention. We have not made a final decision yet concerning the next course of action pending a joint study by Tri-Valley and a worldwide scientific research firm it retained in December 2006.

Also in 2005, the Company successfully hydraulically fractured a 1,000' portion of the 3,000' horizontal portion of the well bore in the Sunrise-Mayel #2H Redrill #2 well in the Sunrise Natural Gas Project in Delano, California. The well was hydraulically fractured utilizing gelled diesel, which carried in approximately 138,000 pounds of sand. Again, while mechanically successful, the operation did not result in the well producing hydrocarbons at commercial rates. As with the Ekho Project, the Company continues to review all available techniques to bring the Sunrise Project potential to commercial realization because of the volume of natural gas in place in the tight reservoir. The Sunrise project is included in the joint study with the scientific research organization. The Company believes the tight McClure Shale which hosts an estimated 3 TCF of gas in the mapped area of closure can ultimately be stimulated to release a portion of the gas in place at commercial rates once the right method is identified.

During 2006, the Company acquired several oil properties. Below is a description of the properties, which were acquired 100% by Tri-Valley.

The C & L/Crofton & Coffee lease consisting of ten wells, which are all idle. The Claflin lease consisting of eight wells which are all idle and the SP/Chevron lease consisting of six idle wells. The Company plans to return the idle wells in all three fields to production during 2007.

Also, the Company holds approximately 17,000 acres in Nevada, all chosen from proprietary data as prospective for oil and gas exploration.

We hold interests in other properties outside of the Opus Partnership. We have producing interests in gas fields in the Sacramento Valley of Northern California including the Rio Vista and Dutch Slough Gas Fields.

The trend of demand outstripping available supplies continues and has become more acute in the last year both worldwide and particularly in California which is currently importing nearly 60% of its oil and nearly 90% of its natural gas. This is all reflected in the extreme spiraling up price trend in the last year. While the Company expects occasional dips in the oil price, barring catastrophic terrorist or natural disaster, the Company believes the overall long-term price trend is up.

We no longer contract for the drilling of the majority of our wells, since we now have our own fleet of production and drill rigs, we do not own any bulk storage facilities or refineries. We own a small segment of a pipeline in Tracy, California. To counter the mounting shortage of production and drilling rigs, we are assembling a fleet to service our wells and contract out when not in use.

We have retained the services of Cecil Engineering, an independent engineer qualified to estimate our net share of proved developed oil and gas reserves on all of our oil and gas properties at December 31, 2006 for SEC filing. We do not include any undeveloped reserves in these reserve studies. Only proved developed reserves are listed in our reserve report. Price is a material factor in our stated reserves, because higher prices permit relatively higher-cost reserves to be produced economically. Higher prices generally permit longer recovery, hence larger reserves at higher values. Conversely, lower prices generally limit recovery to lower-cost reserves, hence smaller reserves. The process of estimating oil and gas reserve quantities is inherently imprecise. Ascribing monetary values to those reserves, therefore, yields imprecise estimated data at best.

Our estimated future net recoverable oil and gas reserves from proved developed properties as of December 31, 2006, 2005 and 2004 were as follows:

		BBL		MCF
December 31, 2006	Oil	275,452	Natural Gas	787,017
December 31, 2005	Oil	218,030	Natural Gas	779,598
December 31, 2004	Condensate	162	Natural Gas	742,401

Using year-end oil and gas prices and current levels of lease operating expenses, the estimated present value of the future net revenue to be derived from our proved developed oil and gas reserves, discounted at 10%, was $6,121,295 at December 31, 2006, $7,056,072 at December 31, 2005, and $1,958,238 at December 31, 2004. The unaudited supplemental information attached to the consolidated financial statements provides more information on oil and gas reserves and estimated values.

The following table sets forth the net quantities of natural gas and crude oil that we produced during:

	Year Ended December 31, 2006	Year Ended December 31, 2005	Year Ended December 31, 2004
Natural Gas (MCF)	86,177	128,602	126,942
Crude Oil (BBL)	6,600	17	22

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The following table sets forth our average sales price and average production (lifting) cost per unit of oil and gas produced during:

Year Ended December 31, 2006	Year Ended December 31, 2005	Year Ended December 31, 2004

	Gas (Mcf)	Oil (BBL)	Gas (Mcf)	Oil*	Gas (Mcf)	Oil*
Sales Price	$6.45	$57.10	$7.00	$44.34	$5.66	$40.60
Production Costs	$1.41	$15.23	$0.73	*	$1.14	*
Net Profit	$5.04	$41.87	$6.27	*	$4.52	*

* Amount represents total sales price of associated condensate, unable to determine production cost per barrel.

As of December 31, 2006 we had the following gross and net position in wells and developed acreage:

Wells (1)		Acres (2)	
Gross	Net	Gross	Net
35	10.62	2,852	778.67

(1) "Gross" wells represent the total number of producing wells in which we have a working interest. "Net" wells represent the number of gross producing wells multiplied by the percentages of the working interests, which we own. "Net wells" recognizes only those wells in which we hold an earned working interest. Working interests earned at payout have not been included.

(2) "Gross" acres represent the total acres in which we have a working interest; "net" acres represent the aggregate of the working interests, which we own in the gross acres.

The following table sets forth the number of productive and dry exploratory and development wells which we drilled during:

	Year Ended December 31, 2006	Year Ended December 31, 2005	Year Ended December 31, 2004
Exploratory			
Producing	-0-	-0-	-0-
Dry	-0-	1	1
Total	-0-	1	1
Development			
Producing	-2-	-0-	-0-

Dry	-0-	-0-	-0-
Total	-2-	-0-	-0-

The following table sets forth information regarding undeveloped oil and gas acreage in which we had an interest on December 31, 2006:

State	Gross Acres	Net Acres
California	21,321	19,747
Nevada	18,559	18,559

Our undeveloped acreage is held pursuant to leases from landowners. Such leases have varying dates of execution

and generally expire one to five years after the date of the lease. In the next three years, the following lease gross acreage expires:

Expires in 2007	6,466 acres
Expires in 2008	4,524 acres
Expires in 2009	3,193 acres

Minerals Properties

Metals

Select's precious metals properties are located in interior Alaska. They are the Richardson, and Shorty Creek.

We acquired the Richardson claim block in 1987. It covers about 44.9 square miles or 28,720 acres of land, all of which is owned by the State of Alaska, All fees due to the State are current. The claims lie immediately north of the Richardson Highway, an all-weather paved highway that connects Fairbanks, Alaska, with points south and east. Fairbanks is approximately 65 miles northwest of Richardson, and Delta Junction, also on the highway, is about 30 miles to the southeast. The Trans Alaska Pipeline corridor is near the northeastern edge of the claim block and the service road along the pipeline provides access to the claims from the north. Numerous good to fair dirt roads traverse the claims.

The following table sets forth the information regarding the acreage position of our Richardson claim block as of December 31, 2006:

State	Gross Acres	Net Acres
Alaska	28,720	27,926

The Richardson project is an early stage gold exploration project in the Richardson District with past placer and load gold production and prospective geophysical and geochemical signatures consistent with intrusion-related gold systems. A number of highly prospective zones have been identified in previous exploration programs carried out by the Company and third-party mining companies. Geophysical assessment, geochemical sampling, and drilling programs have been carried out over several previous exploration campaigns on known gold bearing areas, including the Richardson Lineament (which includes the historic Democrat Mine and the adjacent May's Pit [not a Select property]), Hilltop, Shamrock, Buckeye and other property locations. In late-2005, Select carried out geophysical and satellite interpretation programs over the entire Richardson property and a multi-element soil auger geochemical program extending along an approximate 4.5 mile section of the Richardson Lineament (the Richardson Lineament has been identified and appears to extend in excess of 12 to 15 miles in length). The surveys defined a series of six adjacent, yet discrete precious metal and other element anomalies along the 4.5 mile strike length and one mile width of the geochemical area tested. Select also drilled eight shallow diamond drill holes in the Democrat Mine area for a total of 3,050 feet, which indicated low grade gold and silver mineralization.

In 2006, Select continued the interpretation of the work initiated in late-2005, and identified additional geochemical targets that would potentially extend the previous sampling program further along the strike of the Richardson Lineament. Select also conducted a series of local surveys in order to prepare additional areas on the Richardson Lineament and in the Hilltop are for future geochemical sampling, trenching and drilling. Select also conducted annual maintenance and repair work on the Richardson Roadhouse, associated buildings and core storage areas.

Select obtained the Shorty Creek property in 2004. It is located about 60 miles northwest of Fairbanks, Alaska on the all-weather paved Elliott Highway that connects Fairbanks, Alaska with the North Slope petroleum production areas. Fairbanks is approximately 60 miles to the southwest, and the property is about 3 miles south of the abandoned townsite of Livengood. At Shorty Creek, Select controls mineral rights to 164 State of Alaska mining claims through staking and lease arrangements from Gold Range Ltd., covering approximately 16 square miles.

The following table sets forth the information regarding the acreage position of the Shorty Creek claim block as of December 31, 2006:

State	Gross Acres	Net Acres
Alaska	9,700	9,700

Mineral properties claimed on open state land require minimum annual assessment work of $100 worth per State of Alaska claim. All fees are current.

The Shorty Creek Project is an early stage gold exploration project in the Livengood District with historical exploration, geochemical sampling and drilling over several previous exploration campaigns identifying anomalous concentrations of gold, copper, molybdenum and their pathfinder elements. In 2005 Select carried out a geophysical and satellite interpretation programs over the entire Shorty Creek property. Select also conducted a multi-element soil auger geochemical program extending over one of four distinctive aeromagnetic anomalies, covering an area approximately of 1 mile, resulting in the identification of five precious metal and base metal anomalies.

To date, Select has not identified proven or probable mineral reserves on these properties. There is no assurance that a commercially viable mineral deposit exists on any of these mineral properties. Further exploration is required before a final evaluation as to the economic and technical feasibility can be determined.

Industrial Minerals

Select's industrial mineral project consists of the Admiral calcium carbonate mine in Alaska. The Admiral Mine was obtained in 2005 from Sealaska Corporation. It is located on the north-west side of Prince of Wales Island, approximately 150 (air) miles south of Juneau and 88 (air) miles northwest of Ketchikan. The mine consists of 13.7 million tons of drilled high chemical grade, high brightness and high whiteness mineralized material, and is considered to be in the top 1% of high grade, high white, high bright, CaCO3 deposits in the world. "Mineralized material" means a mineralized body, which has been delineated by appropriately spaced drilling and/or underground sampling to support a sufficient tonnage and average grade of metals. Determinations of mineralized material are based upon unit cost, grade, recoveries, and other material factors to reach conclusions regarding legal and economic feasibility. Grade and brightness tests were conducted by Hazen Research Inc. of Golden, Colorado on selected run-of-mine and core sample material. Hazen's and independent geological engineer, M. G. Bright's grade and tonnage figures correspond and support the earlier grade and tonnage figures represented by Sealaska and SeaCal, LLC. No proven or probable ore reserves have been determined which meet the standards set forth in the SEC's Industry Guide 7. (In the case of industrial minerals, proven and probable ore reserves are those which are currently in production and being sold. Relative to the Admiral mine, the operation previously had proven and probable ore reserves, however, while on standby status, the mineable material moves from the ore reserve category to mineralized material. Once production is restarted, the mineralized material will reconvert to proven and probable ore reserves.) We have obtained a preliminary estimate on the mine from M. G. Bright, independent registered professional geologist, which identifies a total of approximately 13.7 million tons of high grade to ultra high grade (+94% to +98% $CaCO_3$), high brightness (+95 GE Brightness @ -325 mesh) calcium carbonate mineralized material in place. The purchase also includes all associated infrastructure and equipment that the previous owner installed at a cost exceeding $20 million. The current mine covers only 15 acres; the entire property covers 572 acres of patented mining ground, and includes all operating permits and tideland leases. Less than 10% of the gross acreage has been explored and we believe additional resources may yet be discovered. We do not currently have plans to proceed with redevelopment of the mine but intend to hold it while Select pursues other previously identified opportunities. Select also owns the timber rights on the acreage and believes that value alone could repay the cost of acquisition of the property.

Also in 2006, Select arranged to evaluate some 200 industrial mineral properties in Nevada from the inventory of Newmont Mining Corporation. Select may then negotiate exploration and development opportunities it chooses from this inventory.

During 2006, Select began production of industrial minerals and cinder from a mine in Southern California through a 50% owned subsidiary, Tri-Western Resources, LLC. In November 2006, Select sold its interest in Tri-Western to the other 50% owner for approximately $10.2 million.

ITEM 4 Submission of Matters To A Vote Of Security Holders

We held our annual meeting on October 28, 2006. At the meeting, the shareholders re-elected all of the seven directors who were recommended by the board.

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The shareholder votes were as follows:

Measure #1 - Election of Directors

	FOR	AGAINST	ABSTAIN
F. Lynn Blystone	19,502,183	29,669	
Milton J. Carlson	19,446,236	85,616	
G. Thomas Gamble	19,504,231	27,621	
Dennis P. Lockhart	19,505,161	26,691	
Henry Lowenstein	19,503,161	28,691	
William H. Marumoto	19,449,636	82,216	
Loren J. Miller	19,505,515	26,337	

Measure #2 - Other Business - gave the Board of Directors discretion in other matters to come before the annual meeting

	18,776,572	733,810	21,470

PART II

ITEM 5 Market Price Of The Registrant's Common Stock And Related Security Holder Matters

Our common stock trades on the American Stock Exchange under the symbol "TIV". The following table shows the high and low sales prices and high and low closing prices reported on AMEX for the years ended

December 31, 2006 and 2005:

	Sales Prices		Closing Prices	
	High	Low	High	Low
2006				
Fourth Quarter	$10.20	$6.75	$10.07	$6.77
Third Quarter	$8.01	$5.80	$7.49	$5.84
Second Quarter	$9.50tyle="WIDTH: 9%; VERTICAL-ALIGN: bottom; BORDER-BOTTOM: #000000 2px solid; TEXT-ALIGN: right; BACKGROUND-COLOR: #cceeff" valign="bottom">			

	(2,281)	1,074	(116)	3,476
Net income	$ 6,762	$ 3,622	$ 15,162	$ 11,027
Earnings per common share (basic)	$ 1.81	$ 0.97	$ 4.07	$ 2.97
Earnings per common share (diluted)	$ 1.80	$ 0.97	$ 4.04	$ 2.95
Shares outstanding - basic	3,733	3,719	3,730	3,716
Shares outstanding - diluted	3,753	3,738	3,752	3,734
Other comprehensive income (loss):				
Foreign currency translation net of taxes of $0 in all periods	$ (385)	$ 1,223	$ (1,920)	$ 3,559

Total comprehensive income	$ 6,377	$ 4,845	$ 13,242	$ 14,586

see notes to consolidated condensed financial statements

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UTAH MEDICAL PRODUCTS, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND SEPTEMBER 30, 2017
(in thousands - unaudited)

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

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for income taxes	$3,820	$3,753
Cash paid during the period for interest	-	-

see notes to consolidated condensed financial statements

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UTAH MEDICAL PRODUCTS, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(unaudited)

(1) The unaudited financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and note disclosures required by accounting principles generally accepted in the United States. These statements should be read in conjunction with the financial statements and notes included in the Utah Medical Products, Inc. ("UTMD" or "the Company") annual report on Form 10 K for the year ended December 31, 2017. In the opinion of management, the accompanying financial statements include all adjustments (consisting only of normal recurring adjustments) necessary to summarize fairly the Company's financial position and results of operations. Currency amounts are in thousands except per-share amounts and where noted.

(2) Recent Accounting Standards.

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

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

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

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

(4) Stock-Based Compensation. At September 30, 2018, the Company has stock-based employee compensation plans which authorize the grant of stock options to eligible employees and directors. The Company accounts for stock compensation under FASB Accounting Standards Codification ("ASC") 718, Compensation - Stock Compensation.

This statement requires the Company to recognize compensation cost based on the grant date fair value of options granted to employees and directors. In the quarters ended September 30, 2018, and 2017, the Company recognized $11 and $30, respectively, in stock based compensation cost. In the nine months ended September 30, 2018, and 2017, the Company recognized $35 and $99, respectively, in stock based compensation cost.

(5) Warranty Reserve. The Company's published warranty is: "UTMD warrants its products to conform in all material respects to all published product specifications in effect on the date of shipment, and to be free from defects in material and workmanship for a period of thirty (30) days for supplies, or twenty-four (24) months for equipment, from date of shipment. During the warranty period UTMD shall, at its option, replace any products shown to UTMD's reasonable satisfaction to be defective at no expense to the Purchaser or refund the purchase price."

UTMD maintains a warranty reserve to provide for estimated costs which are likely to occur. The amount of this reserve is adjusted, as required, to reflect its actual experience. Based on its analysis of historical warranty claims and its estimate that existing warranty obligations were immaterial, no warranty reserve was made at December 31, 2017, or September 30, 2018.

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

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

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

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

(8) Subsequent Events. UTMD has evaluated subsequent events through the date the financial statements were issued, and concluded there were no other events or transactions during this period that required recognition or disclosure in its financial statements.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

General

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

Analysis of Results of Operations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

CAD	0.774	0.799	(3.2 %)

b) Revenues

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

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

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

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

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

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

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

Global revenues by product category:

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

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OUS revenues by product category:

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

*includes molded components sold to OEM customers.

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

1) UTMD's China distributor for BPM kits has in the past typically purchased about $400 per shipment, representing about a three month supply. At the distributor's request, there were five such shipments in 2017 totaling $1,964. There have been three shipments in 9M 2018 totaling $1,248, with nothing additional scheduled for 4Q 2018. The resulting lower sales to this distributor in 4Q 2018 compared to 4Q 2017 is $425. This distributor's annual blanket order for 2019 for $1,699, which has been received, is scheduled for four shipments.

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

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

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

c) Gross Profit (GP)

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

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

d) Operating Income (OI)

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

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

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

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

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

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

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

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

Variations in R&D expenses result from costs of projects, including engineering time, in different stages of completion. At UTMD, R&D engineers also devote much of their time to manufacturing process improvements.
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e) Non-operating expense (NOE)/ Non-operating income (NOI)

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

f) Income Before Income Taxes (EBT)

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

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

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

Excluding the noncash effects of depreciation, amortization of intangible assets and stock option expense, 3Q 2018 consolidated EBT excluding the noncash remeasured bank balance currency gain or loss and interest expense ("adjusted consolidated EBITDA") were $5,206 compared to $5,417 in 3Q 2017. The lower 3Q 2018 EBITDA was due to the lower GP in 3Q 2018. Adjusted consolidated EBITDA in 9M 2018 were $17,328 compared to $16,653 in 9M 2017. Based on the 9M 2018 EBITDA results, management expects 2018 EBITDA for the year as a whole will be higher than the $21,979 EBITDA for 2017.

g) Net Income (NI)

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

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

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

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

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

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

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

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

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

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h) Earnings Per Share (EPS)

EPS are consolidated NI divided by the number of shares of stock outstanding (diluted to take into consideration stock option awards which are "in the money," i.e., have exercise prices below the applicable period's weighted average market value). Non-GAAP EPS of $0.954 in 3Q 2018 were 1.5% lower than the 3Q 2017 EPS of $0.969. Non-GAAP EPS of $3.194 in 9M 2018 were 8.1% higher than the EPS of $2.953 in 9M 2017. The 8.1% higher 9M 2018 non-GAAP EPS was due to 8.7% higher NI diluted by 0.5% higher diluted shares. Looking forward, management continues to expect to exceed its beginning of year projection for full year 2018 non-GAAP EPS.

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

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

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

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

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

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

i) Return on Equity (ROE)

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

Liquidity and Capital Resources

j) Cash flows

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

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

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

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

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

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

k) Assets and Liabilities

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

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

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

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

l) Management's Outlook

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

1)

continue to exploit distribution and manufacturing synergies by further integrating capabilities and resources in its multinational operations;

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

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

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

Forward-Looking Information. This report contains certain forward-looking statements and information relating to the Company that are based on the beliefs of management as well as assumptions made by management based on information currently available. When used in this document, the words "anticipate," "believe," "project," "estimate," "expect," "intend" and similar expressions, as they relate to the Company or its management, are intended to identify forward-looking statements. Such statements reflect the current view of the Company respecting future events and are subject to certain risks, uncertainties and assumptions, including the risks and uncertainties stated throughout the document. Although the Company has attempted to identify important factors that could cause the actual results to differ materially, there may be other factors that cause the forward statement not to come true as anticipated, believed, projected, expected, or intended. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may differ materially from those described herein as anticipated, believed, projected, estimated, expected or intended. Financial estimates are subject to change and are not intended to be relied upon as predictions of future operating results, and the Company assumes no obligation to update or disclose revisions to those estimates.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

Item 4. Controls and Procedures

The Company's management, under the supervision and with the participation of the Chief Executive Officer and the Principal Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of September 30, 2018. Based on this evaluation, the Chief Executive Officer and Principal Financial Officer concluded that, as of September 30, 2018, the Company's disclosure controls and procedures were effective.

There were no changes in the Company's internal controls over financial reporting that occurred during the nine months ended September 30, 2018, that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

In addition to the other information set forth in this report, investors should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in UTMD's Annual Report on Form 10-K for the year ended December 31, 2017, which could materially affect its business, financial condition or future results. The risks described in the Annual Report on Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to UTMD or currently deemed to be immaterial also may materially adversely affect the Company's business, financial condition and/or operating results.

<u>Legislative healthcare reform in the United States, as embodied in The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (the "Acts") added a substantial excise tax (MDET) in 2013-2015 that increased administrative costs and has led to decreased revenues in the U.S.:</u>
The voluminous Acts, administrative rules to enforce the Acts and promised efforts to reform the Acts, make the U.S. medical device marketplace unpredictable, particularly for the thousands of small medical device manufacturers including UTMD that do not have the overhead structure that the larger medical device companies can afford. Fortunately, the U.S. Congress has suspended the MDET for years of 2016 through 2019. To the extent that the Acts will in the future continue to place additional burdens on small medical device companies in the form of the excise tax on medical device sales, additional oversight of marketing and sales activities and new reporting requirements, the result is likely to continue to be negative for UTMD's ability to effectively compete and support continued investments in new product development and marketing of specialty devices in the U.S.

<u>Increasing regulatory burdens including premarketing approval delays may result in significant loss of revenue, unpredictable costs and loss of management focus on helping the Company proactively conform with requirements and thrive:</u>
The Company's experience in 2001-2005, when the FDA improperly sought to shut it down, highlights the ongoing risk of being subject to a regulatory environment which can be arbitrary and capricious. The risks associated with such a circumstance relate not only to the substantial costs of litigation in millions of dollars, but also loss of business, the diversion of attention of key employees for an extended period of time, including new product development and routine quality control management activities, and a tremendous psychological and emotional toll on dedicated and diligent employees.

Since the FDA reserves to itself the interpretation of which vague industry standards comprise law at any point in time, it is impossible for any medical device manufacturer to ever be confident that it is operating within the Agency's version of the law. The unconstitutional result is that companies, including UTMD, are considered guilty prior to proving their innocence.

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

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

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

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

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

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

<u>A product liability lawsuit could result in significant legal expenses and a large award against the Company:</u>
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.

<u>The Company's reliance on third party distributors in some markets may result in less predictable revenues:</u>
UTMD's distributors have varying expertise in marketing and selling specialty medical devices. They also sell other devices that may result in less focus on the Company's products. In some countries, notably China, Pakistan and India not subject to similarly rigorous standards, by copying, a distributor of UTMD's products may eventually become a competitor with a cheaper but lower quality version of UTMD's devices.

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

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

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

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

Item 6. Exhibits

Exhibit #	SEC Reference #	Title of Document
1	31	Certification of CEO pursuant to Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
2	31	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
3	32	Certification of CEO pursuant to 18 U.S.C. §1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
4	32	Certification of Principal Financial Officer pursuant to 18 U.S.C. §1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
5	101 ins	XBRL Instance
6	101.sch	XBRL Schema
7	101.cal	XBRL Calculation
8	101.def	XBRL Definition
9	101.lab	XBRL Label
10	101.pre	XBRL Presentation

SIGNATURES

Pursuant to the requirements of the Securities Exchanges Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

UTAH MEDICAL PRODUCTS, INC.
REGISTRANT

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

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