U S GLOBAL INVESTORS INC
Form 10-Q
May 14, 2015

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

FORM 10-Q

[X] Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended March 31, 2015

OR

[ ] Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from ____________ to ____________.

Commission File Number 0-13928

U.S. GLOBAL INVESTORS, INC.
(Exact name of registrant as specified in its charter)

Texas (State or other jurisdiction of incorporation or organization)	74-1598370 (IRS Employer Identification No.)
7900 Callaghan Road San Antonio, Texas (Address of principal executive offices)	78229-1234 (Zip Code)

(210) 308-1234
(Registrant's telephone number, including area code)
Not Applicable
(Former name, former address, and former fiscal year, if changed since last report)
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 filing requirements for the past 90 days.
YES [X] NO [ ]
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
YES [X] NO [ ]
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer [X] (Do not check if a smaller reporting company) Smaller Reporting Company [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES [ ] NO [X]

On May 5, 2015, there were 13,866,421 shares of Registrant's class A nonvoting common stock issued and 13,312,314 shares of Registrant's class A nonvoting common stock issued and outstanding, no shares of Registrant's class B nonvoting common shares outstanding, and 2,069,127 shares of Registrant's class C voting common stock issued and outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

Assets (dollars in thousands)	March 31, 2015 (UNAUDITED)	June 30, 2014
Current Assets		
Cash and cash equivalents	$3,671	$5,910
Trading securities, at fair value	16,443	17,817
Receivables	1,900	2,513
Prepaid expenses	499	525
Deferred tax asset	213	51
Total Current Assets	22,726	26,816
Net Property and Equipment	2,804	3,024
Other Assets		
Deferred tax asset, long term	709	298
Investment securities available-for-sale, at fair value	4,303	6,196
Other investments	2,413	1,413
Intangible assets, net	52	86
Other assets, long term	11	13
Total Other Assets	7,488	8,006
Total Assets	$33,018	$37,846
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	$185	$219
Accrued compensation and related costs	444	581
Dividends payable	231	232
Other accrued expenses	733	1,064
Total liabilities held related to discontinued operations	—	47
Total Current Liabilities	1,593	2,143
Commitments and Contingencies (Note 12)		
Shareholders' Equity		
Common stock (class A) - $0.025 par value; nonvoting; authorized, 28,000,000 shares; issued, 13,866,421 and 13,866,361 shares at March 31, 2015, and June 30, 2014, respectively	347	347
Common stock (class B) - $0.025 par value; nonvoting; authorized, 4,500,000 shares; no shares issued	—	—
Convertible common stock (class C) - $0.025 par value; voting; authorized, 3,500,000 shares; issued, 2,069,127 and 2,069,187 shares at March 31, 2015, and June 30, 2014, respectively	52	52
Additional paid-in-capital	15,690	15,669
Treasury stock, class A shares at cost; 557,555 and 501,518 shares at March 31, 2015, and June 30, 2014, respectively	(1,467)	(1,280)
Accumulated other comprehensive income (loss), net of tax	(462)	906
Retained earnings	16,706	19,376

Total U.S. Global Investors, Inc. Shareholders' Equity	30,866	35,070
Non-Controlling Interest in Subsidiary	559	633
Total Shareholders' Equity	31,425	35,703
Total Liabilities and Shareholders' Equity	$33,018	$37,846

The accompanying notes are an integral part of these consolidated financial statements.

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CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Nine Months Ended March 31,		Three Months Ended March 31,	
(dollars in thousands, except per share data)	2015	2014	2015	2014
Operating Revenues				
Mutual fund advisory fees	$5,359	$5,737	$1,248	$1,826
Distribution fees	1,118	1,510	299	474
Shareholder services fees	507	721	143	229
Administrative services fees	516	566	141	213
	7,500	8,534	1,831	2,742
Operating Expenses				
Employee compensation and benefits	4,512	5,277	1,389	1,524
General and administrative	3,248	4,140	1,048	996
Platform fees	1,634	1,381	435	420
Advertising	286	505	96	155
Depreciation and amortization	246	187	81	62
	9,926	11,490	3,049	3,157
Operating Loss	(2,426)	(2,956)	(1,218)	(415)
Other Income				
Investment income	522	1,482	249	373
Equity in earnings of Galileo	—	15	—	30
	522	1,497	249	403
Loss from Continuing Operations Before Income Taxes	(1,904)	(1,459)	(969)	(12)
Provision for Federal Income Taxes				
Tax expense (benefit)	21	(466)	25	14
Loss from Continuing Operations	(1,925)	(993)	(994)	(26)
Discontinued Operations (Note 13)				
Loss from operations of discontinued transfer agent	—	(361)	—	(3)
Tax benefit	—	(123)	—	(1)
Loss from Discontinued Operations	—	(238)	—	(2)
Net Loss	(1,925)	(1,231)	(994)	(28)
Less: Net Income Attributable to Non-Controlling Interest	53	—	13	—
Net Loss Attributable to U.S. Global Investors, Inc.	$(1,978)	$(1,231)	$(1,007)	$(28)
Basic Net Loss per Share				
Loss from continuing operations	$(0.13)	$(0.06)	$(0.07)	$—
Loss from discontinued operations	$—	$(0.02)	$—	$—
Net loss	$(0.13)	$(0.08)	$(0.07)	$—
Diluted Net Loss per Share				
Loss from continuing operations	$(0.13)	$(0.06)	$(0.07)	$—
Loss from discontinued operations	$—	$(0.02)	$—	$—
Net loss	$(0.13)	$(0.08)	$(0.07)	$—
	15,406,189	15,466,280	15,379,365	15,454,932

Basic weighted average number of common shares outstanding				
Diluted weighted average number of common shares outstanding	15,406,189	15,466,280	15,379,365	15,454,932

The accompanying notes are an integral part of these consolidated financial statements.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

(dollars in thousands)	Nine Months Ended March 31, 2015	Nine Months Ended March 31, 2014	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Net Loss Attributable to U.S. Global Investors, Inc.	$(1,978)	$(1,231)	$(1,007)	$(28)
Other Comprehensive Income (Loss), Net of Tax:				
Unrealized gains (losses) on available-for-sale securities arising during period	(862)	750	(13)	380
Less: reclassification adjustment for gains/losses included in net income	(321)	(657)	(69)	(201)
Net change from available-for-sale investments, net of tax	(1,183)	93	(82)	179
Foreign currency translation adjustment	(285)	—	(136)	—
Other Comprehensive Income (Loss)	(1,468)	93	(218)	179
Comprehensive Income (Loss)	(3,446)	(1,138)	(1,225)	151
Less: Comprehensive Loss Attributable to Non-Controlling Interest	(100)	—	(48)	—
Comprehensive Income (Loss) Attributable to U.S. Global Investors, Inc.	$(3,346)	$(1,138)	$(1,177)	$151

The accompanying notes are an integral part of these consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(dollars in thousands)	Nine Months Ended March 31, 2015	2014
Cash Flows from Operating Activities:		
Net loss	$(1,925)	$(1,231)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	246	191
Net loss on disposal of property and equipment	26	25
Net recognized gain on securities	(483)	(828)
Net income from equity method investment	—	(15)
Provision for deferred taxes	37	430
Stock bonuses	9	8
Stock-based compensation expense	—	1
Changes in operating assets and liabilities:		
Accounts receivable	570	(973)
Prepaid expenses	21	4
Trading securities	1,371	(14,056)
Accounts payable and accrued expenses	(510)	(269)
Total adjustments	1,287	(15,482)
Net cash used in operating activities	(638)	(16,713)
Cash Flows from Investing Activities:		
Purchase of property and equipment	(40)	—
Purchase of available-for-sale securities	(186)	(1,055)
Purchase of other investments	(1,000)	(160)
Proceeds on sale of available-for-sale securities	754	4,736
Proceeds from return of capital and principal payments on investments	19	43
Net cash provided by (used in) investing activities	(453)	3,564
Cash Flows from Financing Activities:		
Issuance of common stock	91	122
Repurchases of common stock	(266)	(230)
Distributions to non-controlling interest in subsidiary	(27)	—
Dividends paid	(693)	(696)
Net cash used in financing activities	(895)	(804)
Effect of exchange rate changes on cash and cash equivalents	(253)	—
Net decrease in cash and cash equivalents	(2,239)	(13,953)
Beginning cash and cash equivalents	5,910	18,085
Ending cash and cash equivalents	$3,671	$4,132
Supplemental Disclosures of Cash Flow Information:		
Cash paid for income taxes	$—	$—

The accompanying notes are an integral part of these consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
NOTE 1. BASIS OF PRESENTATION

U.S. Global Investors, Inc. (the “Company” or “U.S. Global”) has prepared the consolidated financial statements pursuant to accounting principles generally accepted in the United States of America (“U.S. GAAP”) and the rules and regulations of the United States Securities and Exchange Commission (“SEC”) that permit reduced disclosure for interim periods. The financial information included herein reflects all adjustments (consisting solely of normal recurring adjustments), which are, in management’s opinion, necessary for a fair presentation of results for the interim periods presented. The Company has consistently followed the accounting policies set forth in the notes to the consolidated financial statements in the Company’s Form 10-K for the fiscal year ended June 30, 2014.

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, United Shareholder Services, Inc. (“USSI”), U.S. Global Investors (Guernsey) Limited (“USGG”) (on August 3, 2013, USGG was dissolved), U.S. Global Brokerage, Inc., U.S. Global Investors (Bermuda) Limited, U.S. Global Investors (Canada) Limited (“USCAN”), and U.S. Global Indices, LLC, and its 65% interest in Galileo Global Equity Advisor Inc. (“Galileo”).

The Company's evaluation for consolidation includes whether entities in which it has an interest are variable interest entities (“VIEs”) and whether the Company is the primary beneficiary of any VIEs identified in its analysis. A VIE is an entity in which either (a) the equity investment at risk is not sufficient to permit the entity to finance its own activities without additional financial support or (b) the group of holders of the equity investment at risk lack certain characteristics of a controlling financial interest. The primary beneficiary is the entity that has the power to direct the activities that most significantly impact the VIE’s economic performance and the obligation to absorb losses of or right to receive benefits from the VIE that could potentially be significant to the VIE. If the VIE qualifies for the investment company deferral, the primary beneficiary is the entity that has the obligation to absorb a majority of the expected losses or the right to receive the majority of the residual returns.

The Company holds variable interests in, but is not deemed to be the primary beneficiary of, the mutual funds it advises. The Company has determined that these entities qualify for the investment company deferral in ASC 810-10-65-2 (aa) and thus determines whether it is the primary beneficiary of these entities by virtue of its exposure to the expected losses and expected residual returns of the entity. The Company’s interests in these entities consist of the Company’s direct ownership therein, which in each case is insignificant to the total ownership of the fund, and any fees earned but uncollected. In the ordinary course of business, the Company may choose to waive certain fees or assume operating expenses of the funds it advises for competitive, regulatory or contractual reasons (see Note 5 for information regarding fee waivers). The Company has not provided financial support to any of these entities outside the ordinary course of business. The Company’s risk of loss with respect to these managed entities is limited to the carrying value of its investments in, and fees receivable from, the entities. The Company does not consolidate these VIEs because it is not the primary beneficiary of these VIEs.

All significant intercompany balances and transactions have been eliminated in consolidation. Certain amounts have been reclassified for comparative purposes. The results of operations for the nine months ended March 31, 2015, are not necessarily indicative of the results to be expected for the entire year.

The unaudited interim financial information in these condensed financial statements should be read in conjunction with the consolidated financial statements contained in the Company’s annual report.

Recent Accounting Pronouncements

In July 2013, the FASB issued ASU 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists ("ASU 2013-11"). ASU 2013-11 became effective for the Company on July 1, 2014. The adoption of ASU 2013-11 was not material to the consolidated financial statements.

In April 2014, the FASB issued ASU No. 2014-08, Presentation of Financial Statements and Property, Plant, and Equipment - Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity ("ASU 2014-08"). ASU 2014-08 will become effective for the Company on July 1, 2015. Management is evaluating the ASU and its potential impact on the financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"), which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The standard is effective for annual periods beginning after December 15, 2016, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach

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reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). Management is currently evaluating the impact of the pending adoption of ASU 2014-09 on the consolidated financial statements and has not yet determined the method by which the Company will adopt the standard in 2017.

In August 2014, the FASB issued ASU 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern ("ASU 2014-15"). This update requires an entity's management to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable). When conditions or events raise substantial doubts about an entity's ability to continue as a going concern, management shall disclose: i) the principal conditions or events that raise substantial doubt about the entity's ability to continue as a going concern; ii) management's evaluation of the significance of those conditions or events in relation to the entity's ability to meet its obligations; and iii) management's plans that are intended to mitigate the conditions or events - and whether or not those plans alleviate the substantial doubt about the entity's ability to continue as a going concern. ASU 2014-15 is effective for the annual period ending after December 15, 2016, and early application is permitted. Management does not currently anticipate that this update will have any impact on the Company's financial statement disclosures.

In November 2014, the FASB issued ASU 2014-17, Business Combinations: Pushdown Accounting ("ASU 2014-17"). ASU 2014-17 provides companies with the option to apply pushdown accounting in its separate financial statements upon occurrence of an event in which an acquirer obtains control of the acquired entity. The election to apply pushdown accounting can be made either in the period in which the change of control occurred, or in a subsequent period. If the election is made in a subsequent period, it would be considered a change in accounting principle and treated in accordance with Topic 250, Accounting Changes and Error Corrections. ASU 2014-17 became effective for the Company on November 18, 2014. The adoption of ASU 2014-17 was not material to the consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, Amendments to the Consolidation Analysis ("ASU 2015-02"), which amends the consolidation requirements in Accounting Standards Codification ("ASC") 810, Consolidation. This standard modifies existing consolidation guidance for reporting organizations that are required to evaluate whether they should consolidate certain legal entities. ASU 2015-02 is effective for fiscal years and interim periods within those years beginning after December 15, 2015, and requires either a retrospective or a modified retrospective approach to adoption. Early adoption is permitted. The Company is currently evaluating the potential impact of this standard on its consolidated financial statements, as well as the available transition methods.

NOTE 2. INVESTMENTS

As of March 31, 2015, the Company held investments with a fair value of approximately $20.7 million and a cost basis of approximately $22.0 million. In addition, the Company held other investments of $2.4 million. Total investments are approximately 70.1 percent of the Company's total assets. On March 31, 2015, the Company had $17.5 million and $465,000 at fair value invested in USGIF and an offshore fund the Company advises, respectively. These amounts were included in the Consolidated Balance Sheet as "trading securities" and "available-for-sale securities."

Investments in securities classified as trading are reflected as current assets on the Consolidated Balance Sheets at their fair value. Unrealized holding gains and losses on trading securities are included in earnings in the Consolidated Statements of Operations.

Investments in securities classified as available-for-sale, which may not be readily marketable, are reflected as non-current assets on the Consolidated Balance Sheets at their fair value. Unrealized holding gains and losses on available-for-sale securities are excluded from earnings and reported in other comprehensive income as a separate component of shareholders' equity until realized.

Other investments consist of equity investments in entities over which the Company is unable to exercise significant influence and which do not have readily determinable fair values. These investments are accounted for under the cost method of accounting and evaluated for impairment.

The Company considers many factors in determining impairment, including the severity and duration of the decline in value below cost, the Company's interest and ability to hold the security for a period of time sufficient for an anticipated recovery in value, and the financial condition and specific events related to the issuer. When an impairment of a security is determined to be other-than-temporary, the impairment is recognized in earnings.

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In December 2013, the shareholders of the U.S. Government Securities Savings Fund approved a proposal resulting in the conversion of the fund from a money market fund to a U.S. Government ultra-short bond fund that is not a money market fund. The fund was renamed U.S. Government Securities Ultra-Short Bond Fund ("Government Fund"). Prior to the conversion, while the fund was a money market fund, the amount held in the fund was classified as a cash equivalent. After the conversion, the amount held in the fund is classified as a trading mutual fund investment. The amount held in the fund by the Company as of the conversion date was $14.1 million.

The Company records security transactions on trade date. Realized gains (losses) from security transactions are calculated on the first-in/first-out cost basis, unless otherwise identifiable, and are recorded in earnings on the date of sale.
The following details the components of the Company's investments recorded as fair value as of March 31, 2015, and June 30, 2014.

	March 31, 2015			
		Gross Unrealized		
(dollars in thousands)	Cost	Gains	(Losses)	Fair Value
Trading securities [1]				
Offshore fund	$1,184	$—	$(719)	$465
Mutual funds - Fixed income	15,441	140	(1)	15,580
Mutual funds - Domestic equity	535	—	(137)	398
Other	81	—	(81)	—
Total trading securities	$17,241	$140	$(938)	$16,443
Available-for-sale securities [2]				
Common stock - Domestic	$575	$367	$(13)	$929
Common stock - International	652	219	(32)	839
Corporate debt	229			
G&A Expense	1,330	1,361	2,642	2,757
Total Operating Expenses:	$1,859	$1,937	$3,670	$3,848

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; and 3) income from rent of underutilized property, investment income and royalties received from licensing the Company's technology. Negative NOE is NOI. Net NOI in 2Q 2017 was $23 compared to $64 NOI in 2Q 2016. Net NOI in 1H 2017 was $49 compared to $165 NOI in 1H 2016. The loss/gain on remeasured foreign currency balances in 2Q 2017 was $0 compared to a gain of $38 in 2Q 2016. In 1H 2017, the gain on remeasured foreign currency balances was $1 compared to a gain of $111 in 1H 2016. Royalties received were $19 in 2Q 2017 compared to $22 in 2Q 2016, and $42 in 1H 2017 compared to $45 in 1H 2016.

f) Income Before Income Taxes (EBT)

Consolidated EBT results from subtracting net NOE or adding NOI from or to, as applicable, Consolidated OI. Consolidated 2Q 2017 EBT was $5,057 (46.7% of sales) compared to $4,379 (41.7% of sales) in 2Q 2016. Consolidated 1H 2017 EBT was $9,807 (46.5% of sales) compared to $8,792 (42.3% of sales) in 1H 2016.

The EBT of Utah Medical Products, Inc. (U.S.) was $2,233 in 2Q 2017 compared to $2,144 in 2Q 2016, and $4,484 in 1H 2017 compared to $4,403 in 1H 2016. The EBT of Utah Medical Products, Ltd (Ireland) was EUR 875 in 2Q 2017 compared to EUR 931 in 2Q 2016, and EUR 1,512 in 1H 2017 compared to EUR 1,600 in 1H 2016 . The EBT of Femcare Group Ltd (Femcare-Nikomed, Ltd., UK and Femcare Australia) was GBP 1,146 in 2Q 2017 compared to GBP 817 in 2Q 2016, and GBP 2,306 in 1H 2017 compared to GBP 1,808 in 1H 2016. The 2Q 2017 and 1H 2017 EBT of Utah Medical Products Canada, Inc. was CAD 567 and CAD 1,062, respectively.

Excluding the noncash effects of depreciation, amortization of intangible assets and stock option expense, 2Q 2017 consolidated EBT excluding the remeasured bank balance currency gain or loss and interest expense (adjusted consolidated EBITDA) were $5,779 (53.4% of sales) compared to $5,098 (48.6% of sales) in 2Q 2016. Adjusted consolidated EBITDA in 1H 2017 were $11,236 (53.3% of sales) compared to $10,200 (49.1% of sales) in 1H 2016. Based on this performance, management now expects more than a $2 million increase in adjusted EBITDA for the 2017 year. TTM adjusted EBITDA were $20,254.

g) Net Income (NI)

NI is EBT minus a provision for income taxes. In addition to the growth in EBT, NI in 2017 was further leveraged by lower tax provisions. NI in 2Q 2017 of $3,870 was $611 (+19%) higher than the NI of $3,259 in 2Q 2016. The consolidated income tax provision rate in 2Q 2017 was 23.5% compared to 25.6% for 2Q 2016. NI in 1H 2017 of $7,405 was $930 (+14%) higher than the NI of $6,476 in 1H 2016. The consolidated income tax provision rates were 24.5% in 1H 2017 and 26.3% in 1H 2016.   On April 1, 2017, the corporate income tax rate in the UK was lowered from 20% to 19%. For foreign subsidiaries, the tax provision booked in consolidated results is based on taxable income in the applicable sovereignty, not based on U.S. GAAP EBT. As UTMD held about $16 million in cash in USD currency in Ireland and UK subsidiary bank accounts as of June 30, 2017, and the USD weakened relative to the applicable native currency, the resulting translation loss for each subsidiary created a tax credit for those subsidiaries in their applicable native currencies. In summary, although there was not a corresponding translation loss for consolidated UTMD results, which are obviously expressed in USD, there was a tax provision benefit.

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). Diluted EPS in 2Q 2017 were $1.037 compared to $0.863 in 2Q 2016. In 1H 2017, EPS were $1.985 compared to $1.716 in 1H 2016. With some help from lower diluted shares outstanding, 2Q 2017 EPS increased 20% (17.4 cents) compared to 2Q 2016, and 1H 2017 EPS increased 16% (26.9 cents) compared to 1H 2016. Looking forward, management is now projecting 2017 EPS greater than $3.60.

EPS for the most recent twelve months were $3.489, but this includes a 4Q 2016 "one-time" increase of $.033 from the adjustment in UTMD's deferred tax liability as a result of lower future income tax rates enacted in the UK in late 2016.

Diluted shares outstanding used to calculate 2Q 2017 EPS were 3,731,859 compared to 3,776,304 in 2Q 2016. The number of shares added as a dilution factor in 2Q 2017 was 15,686 compared to 17,906 in 2Q 2016. Diluted shares outstanding used to calculate 1H 2017 EPS were 3,730,478 compared to 3,773,453 in 1H 2016. The number of shares added as a dilution factor in 1H 2017 was 15,253 compared to 17,899 in 1H 2016. UTMD has not to date in 2017 repurchased any of its shares in the open market. In 4Q 2016, UTMD repurchased 50,000 shares which accounts for the lower outstanding shares in 2Q 2017 and 1H 2017 compared to 2Q 2016 and 1H 2016.

Outstanding shares at the end of 2Q 2017 were 3,717,990 which included 1H 2017 employee and outside director option exercises of 4,860 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 June 30, 2017 was 62,324 shares at an average exercise price of $46.15/ share, including shares awarded but not vested. This compares to 51,861 unexercised option shares outstanding at June 30, 2016 at an average exercise price of $39.59/ share. No option shares have been awarded to date in 2017.

During both 1H 2017 and 1H 2016, UTMD did not repurchase its shares in the open market. The Company retains the financial ability for repurchasing its shares when they seem undervalued. Based on the strong 1H 2017 financial performance, management must increase its beginning of year projection outlined in the 2016 SEC Form 10-K to an expectation of double-digit growth in NI and EPS for the 2017 year as a whole.

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 ROE (before stockholder dividends) in 1H 2017 was 20% compared to 18% in 1H 2016. The higher ROE in 1H 2017 was due to the increase in NI. Targeting a high ROE of 20% 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 $7,742 in 1H 2017 compared to $7,764 in 1H 2016. The most significant differences in the two periods were the $930 increase in net income, a $707 use of cash from a larger increase in 1H 2017 trade accounts receivable compared to 1H 2016, a $426 benefit to cash from an increase in accrued expenses in 1H 2017 following a decrease in 1H 2016, and a $360 use of cash from a smaller increase in accounts payable in 1H 2017 compared to the same period in 2016.

Capital expenditures for property and equipment (PP&E) were $114 in 1H 2017 compared to $90 in 1H 2016. Depreciation of PP&E was $330 in 1H 2017 compared to $298 in 1H 2016.

UTMD made cash dividend payments of $984 in 1H 2017 compared to $976 in 1H 2016. The Company did not use cash to repurchase any of its own shares during either 1H 2017 or 1H 2016.

In 1H 2017, UTMD received $168 and issued 4,860 shares of its stock upon the exercise of employee and director stock options. Option exercises in 1H 2017 were at an average price of $34.67 per share. In comparison, in 1H 2016 the Company received $257 and issued 8,485 shares of stock on the exercise of employee and director stock options, net of 500 shares retired upon employees trading those shares in payment of the stock option exercise price. Option exercises in 1Q 2016 were at an average price of $32.06 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, for example, to fit-out a UK facility and property purchased in late 2016 specific to UTMD's needs; 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

June 30, 2017 total consolidated assets were $85,945, an increase of $9,361 from December 31, 2016. The increase was due mainly to a $7,450 increase in cash and investments. Other significant changes in assets included a $1,259 increase in consolidated net trade receivables, a $257 increase in consolidated inventories and a $260 increase in net intangible assets. UTMD's Ireland subsidiary EUR-denominated assets and liabilities were translated into USD at an FX rate 8.1% higher (stronger EUR) than the FX rate at the end of 2016. UTMD's UK subsidiary GBP-denominated assets were translated into USD at an FX rate 5.3% higher (stronger GBP) than the FX rate at the end of 2016. UTMD's Australia subsidiary AUD-denominated assets were translated into USD at an FX rate 6.2% higher (stronger AUD) than the FX rate at the end of 2016. The net book value of consolidated property, plant and equipment increased $179 at June 30, 2017 from the end of 2016 due to period-ending changed FX rates, $114 in new asset purchases and $330 in depreciation.

Working capital (current assets minus current liabilities) was $39,395 at June 30, 2017 compared to $31,845 at December 31, 2016. A current asset increase of $8,922 was led by the $7,450 increase in cash and investments. Current liabilities increased $1,372, including a $1,294 increase in accrued liabilities. The accrued liabilities increase was mainly due to the $985 2Q 2017 quarterly dividend payment to stockholders accrued but not paid until July 6, whereas the $984 4Q 2016 dividend was paid before the end of December 2016. UTMD management believes that its working capital remains sufficient to meet normal operating needs, new capital expenditures and projected cash dividend payments to stockholders.

June 30, 2017 intangible assets (goodwill plus other intangible assets) increased $260 from the end of 2016. The increase was due to the higher FX rate for GBP Femcare intangibles as of June 30, 2017 compared to year-end 2016, offset somewhat by the $1,004 1H 2017 amortization of Femcare IIA. At June 30, 2017, net intangible assets including goodwill declined to 37% of total consolidated assets compared to 41% at year-end 2016, and 43% at June 30, 2016.

The deferred tax liability balance for Femcare IIA ($9,084 on the date of the acquisition), was $3,178 at June 30, 2017 compared to $3,209 at December 31, 2016 and $3,784 at June 30, 2016. Reduction of the deferred tax liability occurs as the book/tax difference of amortization is eliminated over the remaining useful life of the Femcare IIA. UTMD's total debt ratio (total liabilities/ total assets) as of June 30, 2017 was 10%, the same as at December 31, 2016. UTMD's total debt ratio as of June 30, 2016 was 12%.

l) Management's Outlook

As outlined in its December 31, 2016 SEC 10-K report, UTMD's plan for 2017 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.

Generally, the Company continues to effectively execute its plan as outlined above. Based on results of 1H 2017, management expects to exceed the financial objectives for the full year of 2017 as stated in the Form SEC 10-K at the beginning of the year.

m) Accounting Policy Changes

Accounting Standards Update No. 2016-09, Improvements to Employee Share-Based Payment Accounting, was adopted by the Company effective January 1, 2017, as required by the ASU. This update to ASC 718, Compensation - Stock Compensation was issued by the Financial Accounting Standards Board as part of their simplification initiative. This adoption had an immaterial impact on UTMD's retained earnings and other components of equity as of the date of adoption. In the statement of cash flows, the effect of the required change related to excess tax benefits, which was immaterial, was retrospectively applied. Stock compensation expense continues to reflect estimated forfeitures.

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 .8763, .9474 and .9028 EUR per USD as of June 30, 2017, December 31, 2016 and June 30, 2016, respectively. Exchange rates were .7696, .8105 and .7545 GBP per USD as of June 30, 2017, December 31, 2016 and June 30, 2016, respectively. Exchange rates were 1.3028, 1.3829 and 1.3433 AUD per USD on June 30, 2017, December 31, 2016 and June 30, 2016, respectively. Exchange rates were 1.2982 CAD per USD on June 30, 2017. 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 June 30, 2017. Based on this evaluation, the Chief Executive Officer and Principal Financial Officer concluded that, as of June 30, 2017, 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 six months ended June 30, 2017, 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, 2016, which could materially affect its business, financial condition or future results. The risks described in the Annual Report on Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to UTMD or currently deemed to be immaterial also may materially adversely affect the Company's business, financial condition and/or operating results.

Legislative healthcare reform in the United States, as embodied in The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (the "Acts") added a substantial excise tax (MDET) in 2013-2015 that increased administrative costs and has led to decreased revenues in the U.S.:
The voluminous Acts, administrative rules to enforce the Acts and promised efforts to reform the Acts, make the U.S. medical device marketplace unpredictable, particularly for the thousands of small medical device manufacturers including UTMD that do not have the overhead structure that the larger medical device companies can afford. Fortunately, the U.S. Congress has suspended the MDET for two years of 2016 and 2017. To the extent that the Acts will in the future continue to place additional burdens on small medical device companies in the form of the excise tax on medical device sales, additional oversight of marketing and sales activities and new reporting requirements, the result is likely to continue to be negative for UTMD's ability to effectively compete and support continued investments in new product development and marketing of specialty devices in the U.S.

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

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

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

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

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

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

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

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

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

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

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

Future increases in sales of the Filshie Clip System due to Bayer stopping sales of the Essure device are uncertain, and may not materialize.

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

UTMD did not purchase any of its own securities during 1H 2017.

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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

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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: 8/3/17 By: /s/ Kevin L. Cornwell
Kevin L. Cornwell
CEO

Date: 8/3/17 By: /s/ Paul O. Richins
Paul O. Richins
Principal Financial Officer