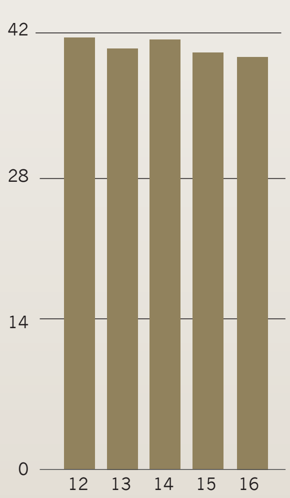
Utah Medical Products, Inc.

2016

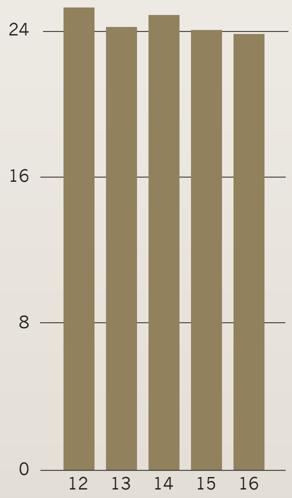
ANNUAL REPORT

UTAH MEDICAL PRODUCTS, INC.

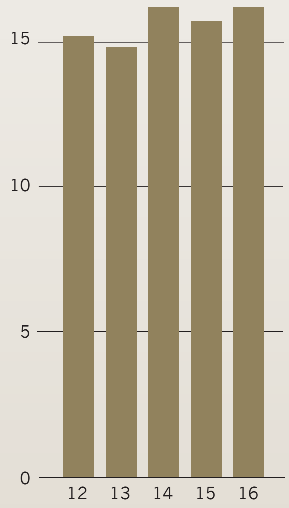
Utah Medical Products, Inc., with particular interest in health care for women and their babies, develops, manufactures and markets a broad range of disposable and reusable specialty medical devices recognized by clinicians in over one hundred countries around the world as the standard for obtaining optimal long term outcomes for their patients.



NET SALES
(millions of dollars)



GROSS PROFITS
(millions of dollars)

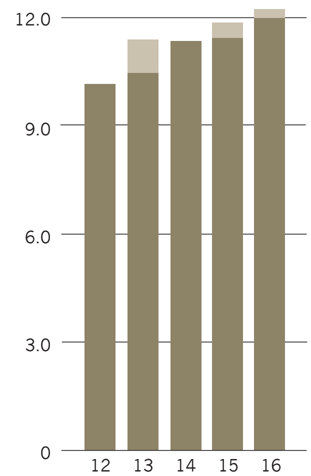


OPERATING PROFITS
(millions of dollars)

5 Year Summary of Operations

(In thousands, except per share amounts)

	2016	2015	2014	2013	2012
Net sales	$39,298	$40,157	$41,278	$40,493	$41,552
Net income	12,128	11,843	11,378	11,406	10,169
Total assets	76,584	79,175	81,076	80,711	76,935
Long-term debt	—	—	973	5,065	9,003
Stockholders' equity	69,243	69,648	64,556	60,581	50,972
Earnings per common share (diluted)	$ 3.22	$ 3.14	$ 3.02	$ 3.02	$ 2.74
Cash dividends per share	$ 1.05	$ 1.03	$ 1.01	$ .99	$ .97
Weighted average common shares (diluted)	3,766	3,772	3,774	3,775	3,711

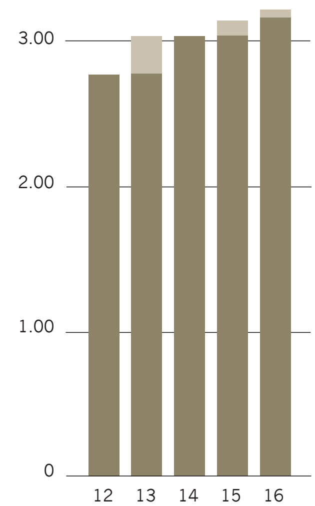


NET INCOME
(millions of dollars)
Deferred tax adjustment

Quarterly Income Statement Summaries

(In thousands, except per share amounts)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2016				
Net sales	$10,301	$10,490	$ 9,655	$ 8,852
Gross profit	6,223	6,252	5,775	5,440
Net income	3,217	3,259	2,935	2,717
Earnings per share	$ .85	$ .86	$ .78	$ .73
2015				
Net sales	$10,233	$10,397	$ 9,945	$ 9,582
Gross profit	6,112	6,099	6,079	5,894
Net income	2,667	2,918	3,047	3,211
Earnings per share	$ .71	$ .77	$ .81	$ .85
2014				
Net sales	$ 9,827	$10,491	$10,717	$10,243
Gross profit	6,050	6,349	6,196	6,388
Net income	2,722	2,834	2,822	3,000
Earnings per share	$ .72	$ .75	$ .75	$ .80



EARNINGS PER SHARE
(dollars)
Deferred tax adjustment

Letter from the President

To Our Stockholders

Despite a consecutive two year annual USD sales decline which we expect to reverse in 2017, UTMD was able to continue to achieve higher profits in 2016. Earnings Before Taxes (EBT) were up 6%, reflecting a consistent gross profit margin, lower operating expenses including the suspension of the Obamacare Medical Device Excise Tax and a USD gain in remeasured foreign currency bank balances. Operating Income, Net Income and Earnings per Share (EPS) were all up 2% to 3%, equaling or exceeding management's beginning of year projections. In a challenging environment, the 2016 financial performance supported a 24% increase in UTMD's year-end closing stock price.

Stockholders' likely recall that about 30% of UTMD's consolidated sales are invoiced in foreign currencies outside the U.S. (OUS). Changes in foreign currency exchange (FX) rates did not have as significant an impact on consolidated USD sales results in 2016 as they did in 2015, but 94% of the negative $600 (in thousands) impact in 2016 ostensibly resulted from the June BREXIT referendum, after which the British Pound declined in value rather precipitously.

The greatest change affecting UTMD's 2016 sales performance was lower purchases of the Filshie Clip System by CooperSurgical Inc. (CSI), Femcare's exclusive U.S. distributor. Inexplicably, 2016 CSI purchases were $1,298 lower than in 2015, a decline of 31%; which was also 23% lower than CSI's average annual purchases over the prior four years. CSI purchases were 7.4% of total consolidated sales in 2016 compared to 10.5% of total sales in 2015, accounting for substantially more than the total decline in UTMD sales for the year. Tubal ligation of the Fallopian tubes is a well-accepted means of female sterilization. Given other tubal occlusion device developments, the 2016 U.S. sales were the opposite of what we expected. For example, recently on February 17, Brazil's National Health Surveillance Agency, Anvisa (Agencia Nacional da Vigilancia Sanitaria), suspended and recalled Bayer AG's permanent sterilization device, Essure, from the Brazil market. This action helps confirm my belief that a proper analysis of the scientific medical literature demonstrates that the Filshie Clip, now after more than thirty years since it was introduced, continues to be the safest and most effective method of tubal ligation.

In addition, in late 2016, the FDA finally approved the use of Femcare's Sterishot single use applicator for applying Filshie clips. An applicator is a precision instrument which closes the implanted Filshie clip on the Fallopian tube to achieve proper permanent tubal ligation. Reused applicators require extra handling, cleaning, resterilization and storage which have the potential to damage or misalign the delicate mechanism. Timely periodic servicing and recalibration is needed. In addition, the reuse of a surgical instrument introduces the possibility of infection if not properly cleaned and resterilized between procedures. The precalibrated, single use sterile Sterishot eliminates these safety, effectiveness and cost exposures. After more than seven years since being introduced, the Sterishot is used in the majority of Filshie clip ligation procedures OUS. We expect CSI purchases from Femcare in 2017 will be substantially higher.

Several of UTMD's other product categories experienced excellent global sales results in 2016, led by pressure monitoring devices which were up 17%. Electrosurgery device sales were 6% higher and urology device sales were 7% higher than in the previous year. For more details regarding 2016 sales results, please read the Management Discussion & Analysis (MD&A) section of this report and UTMD's 2016 SEC Form 10-K available at http://www.utahmed.com.

Although it didn't benefit financial results, UTMD made further strides in 2016 to strengthen its global business. We incorporated a new subsidiary, Utah Medical Products Canada, Inc. (dba Femcare Canada) in Ontario, purchased and set up a distribution facility in Mississauga, and hired and trained new Canadian employees who began shipping UTMD devices directly to Canadian medical facilities at the beginning of 2017. In addition, we prepared to distribute directly to medical facilities in France in 2017 from Femcare's UK facility located in Romsey, South Hampshire, rather than working through an intermediary distributor as in previous years. In preparation for the March 2018 expiration of Femcare's Romsey facility lease, UTMD purchased a standalone building shell on property also located in Romsey, which is three times the size of Femcare's current facility. This new facility will be fit-out for operational use during 2017. Beginning in early 2018, UTMD will own all of its operating facilities in the U.S., Australia, Canada, Ireland and the UK, totaling 233,000 square feet, which will provide a platform for future expansion and profitability.

With respect to the new U.S. administration, favorable changes in law or regulation that may or may not happen will not be incorporated into UTMD's plans until they become reality. However, we hope to see a trend toward a smaller, more sensible, less intrusive federal government. Despite statists' arguments to the contrary, in a capitalistic society, one size does not fit all, whether it's in health care or corporate governance. In health care legislation, simpler, more clear rules that include malpractice tort reform and put medical device choice back in the hands of care-givers would substantially benefit UTMD. Any initiative that reduces the number of non-productive bureaucrats will certainly benefit the public. For example, having to dramatically increase the number of government employees, as in 8,000 IRS agents to enforce Obamacare penalties, should have been a clue, ironically, that Obamacare would not get health care costs under better control. The "Accountants and Lawyers Welfare Act of 2002", also known as the Sarbanes-Oxley Act, is another clear example of an unnecessary and extreme bureaucratic burden placed on all publicly-traded U.S. companies in response to the SEC's inability to timely recognize the misacts of a few.

UTMD's 2016 consolidated EBT margin, bottom line profits before income taxes divided by sales, improved to 41.8% compared to 38.7% in 2015. Because of UTMD's exceptional profitability resulting from tightly controlled operating expenses, high income tax rates represent a significant issue for stockholder returns. Please note that EBT are not affected by the adjustment to the current tax provision resulting from the UK government's lowering, in both 2016 and 2015, of future corporate income tax rates.

U.S. corporate tax reforms being discussed in Congress have the potential to significantly improve net income and EPS. UTMD's U.S. federal income tax rate after currently allowed deductions is slightly over 34% of EBT. State income tax adds another 5%. I'll confirm the arithmetic, although I suspect that stockholders have already done it. If the federal effective tax rate were reduced by nine percentage points to 25%, which is equivalent to Canada but still higher than the UK and Ireland, UTMD's 2016 net income would have been \$800 higher, and EPS \$.21 higher. In addition, 80% of UTMD's cash balances are being held overseas. Reducing the tax burden on bringing cash to the U.S. that was and will be generated by OUS operations would help optimize UTMD's capital allocation strategy, which has been appreciated by UTMD's long term stockholders.

In summary, although we are satisfied with the 2016 results, UTMD's experienced management team expects to achieve a very good year in 2017, and acknowledges that a more favorable business environment in the U.S. could further leverage results. Thank you for your interest and continued ownership in UTMD.

Kevin L. Cornwell
Chairman & CEO

Management's Discussion and Analysis

Currency amounts are in thousands except per-share amounts and where noted. Currencies are abbreviated as follows: the U.S. Dollar (USD or $), the Great Britain Pound (GBP or £), the Euro (EUR or €), the Australian Dollar (AUD or A$) and the Canadian Dollar (CAD or C$).

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

Overview

Utah Medical Products, Inc. concluded a year in 2016 in which it met or exceeded beginning of year projections for Operating Income (OI), Income Before Tax (EBT), Net Income (NI) and Earnings per Share (EPS) despite Net Sales (Consolidated Sales) and Gross Profit (GP) which were 2% lower than in 2015.

	2016	2015	change
Net Sales	$39,298	$40,157	-2.1%
Gross Profit	23,690	24,185	-2.0%
Operating Income	16,187	15,651	+3.4%
Income Before Tax	16,422	15,545	+5.6%
Net Income	12,128	11,843	+2.4%
Earnings per Share	3.220	3.140	+2.6%

All of the key profit margins improved in 2016 compared to 2015:

	2016	2015
Gross Profit Margin (GMP)	60.3%	60.2%
Operating Income Margin (OIM)	41.20%	39.0%
Net Income Margin (NIM)	30.9%	29.5%

There were two unexpected occurrences which substantially affected Consolidated Revenues and GP: 1) The weakness in the GBP in the second half (2H) of 2016 resulting from the United Kingdom (UK) BREXIT referendum, and 2) lower purchases by Femcare's exclusive U.S. distributor, CooperSurgical Inc. (CSI), of the Filshie Clip System. If foreign currency exchange (FX) rates had been the same in 2016 as in 2015 ("constant currency") and CSI had purchased the same amount of Filshie Clip System devices as in the previous year, UTMD's Net Sales would have been $1,898 higher, yielding 3% higher sales and GP compared to 2015.

On the other hand, UTMD's OIM was substantially helped by the weaker GBP, as consolidated USD operating expenses (OE) were $1,031 lower for 2016 than for 2015, including $300 lower expense related to amortization of Femcare identifiable intangible assets (IIA). As a result of the lower OE, OI in 2016 increased $536 (+3.4%) despite $495 lower GP.

EBT in 2016, which are not affected by the Deferred Tax Liability (DTL) adjustments described below, were almost 6% higher than in 2015 as a result of the $536 higher OI and $340 lower net non-operating expense (NOE). More precisely, UTMD had $235 in net non-operating income (NOI) in 2016 and $105 in NOE in 2015.

As also happened in 2015, in late 2016, the UK enacted lower future corporate income tax rates. UTMD's 2016 NI and EPS per U.S. Generally Accepted Accounting Principles (US GAAP) benefited from the lowering of future UK corporate income tax rates from 18% to 17% beginning April 1, 2020. A lower future rate reduces UTMD's current DTL balance, which resulted from recognizing the impact of non-tax deductible intangible asset amortization expense over the fifteen year life of the IIA acquired in UTMD's 2011 acquisition of the Femcare Group. Lower UK tax rates enacted in 2015 increased UTMD's NI by $351 and EPS by 9.3 cents/share. The lower rates enacted in 2016 increased UTMD's 2016 NI by $123 and EPS by 3.3 cents/share. Ignoring these DTL adjustments, UTMD's 2016 non-US GAAP NI increased 4% and non-US GAAP EPS increased 5%, compared to 2015, exceeding management's projected 2-3% increase described in its 2015 SEC Form 10-K.

The Company believes that the presentation of results excluding the adjustments in DTL and tax provisions provide meaningful supplemental information to both management and investors that is indicative of UTMD's core operating results in 2016 compared to 2015.

The Company's continued excellent positive cash flow in 2016 allowed it to increase cash dividends paid to stockholders, repurchase 50,000 UTMD shares in the open market and use over $3 million in cash to purchase facilities in the UK and Canada along with other long-term asset purchases.

Measures of the Company's liquidity and overall financial condition improved as of the end of 2016 compared to the end of 2015. UTMD reduced total liabilities 23% and increased current assets 6%. The total debt ratio (total liabilities to total assets) declined to 10% from 12% at the end of 2015. The current ratio (current assets to current liabilities) increased to 11.5 from 8.1. Cash generation remained strong, allowing a 2% increase in cash dividends to stockholders, a $3.3 million investment in property and equipment purchases and share repurchases of $2.9 million. Stockholders' Equity declined to $69.2 million from $69.6 million at the end of 2015 despite $12.1 million in NI because of combined dividends and share repurchases of $6.8 million together with $6.3 million reduction in the USD value of foreign assets including foreign currency cash balances. The return on average Stockholders' Equity (ROE) prior to the payment of dividends was 17% in 2016 compared to 18% in 2015.

Productivity of Assets and Working Capital Assets

Assets. Year-end 2016 total consolidated assets were $76,584 comprised of $34,867 in current assets, $9,966 in consolidated net property, plant and equipment (PP&E) and $31,751 in net

Consolidated Balance Sheet

(In thousands)

December 31,	2016	2015
Assets		
Current assets:		
Cash	$ 26,296	$ 23,278
Investments, available-for-sale (notes 3 and 4)	64	55
Accounts and other receivables, net (note 2)	3,211	4,563
Inventories (note 2)	4,542	4,196
Prepaid expenses and other current assets	361	418
Deferred income taxes (note 8)	393	363
Total current assets	34,867	32,873
Property and equipment, net (notes 5 and 11)	9,966	7,369
Goodwill	13,487	14,725
Other intangible assets (note 2)	31,947	37,772
Other intangible assets — accumulated amortization	(13,683)	(13,564)
Other intangible assets — net (note 2)	18,264	24,208
Total assets	$ 76,584	$ 79,175
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 906	$ 649
Accrued expenses (note 2)	2,116	3,417
Total current liabilities	3,022	4,066
Deferred tax liability - intangible assets	3,209	4,452
Deferred income taxes (note 8)	1,109	1,009
Total liabilities	7,340	9,527
Commitments and contingencies (notes 7 and 13)	—	—
Stockholders' equity:		
Preferred stock, $.01 par value; 5,000 shares authorized, no shares issued and outstanding	—	—
Common stock, $.01 par value; 50,000 shares authorized, issued 3,713 shares in 2016 and 3,751 shares in 2015	37	38
Accumulated other comprehensive income (loss)	(12,243)	(5,961)
Additional paid-in capital	378	2,710
Retained earnings	81,072	72,861
Total stockholders' equity	69,244	69,648
Total liabilities and stockholders' equity	$ 76,584	$ 79,175

See accompanying notes to financial statements.

Management's Discussion and Analysis *(continued)*

intangible assets. This compares to $79,175 total assets at the end of 2015 comprised of $32,873 in current assets, $7,369 in consolidated net PP&E and $38,933 in net intangible assets. Total asset turns (total consolidated sales divided by average total assets for the year) in 2016 were 50%, the same as in 2015.

Current assets increased $1,995 due to a $3,026 increase in cash and investments, a $1,351 decrease in accounts and other receivables and a $346 increase in year-end inventories. Year-end 2016 and 2015 cash and investment balances were $26,360 and $23,333, representing 34% and 29% of total assets, respectively. Net (after allowance for doubtful accounts) year-end trade accounts receivable (A/R) balances decreased $457 due to lower 4Q 2016 sales and faster payments by customers. Average days in A/R from date of invoice on December 31, 2016 were 32 days based on 4Q 2016 shipments compared to 34 days at the end of 2015. The Company believes any older A/R will be collected or are within its reserve balances for uncollectible amounts. Average 2016 consolidated inventory turns improved to 3.6 compared to 3.5 in 2015 based on the applicable year's cost of goods sold.

Working capital (current assets minus current liabilities) at year-end 2016 was 11% higher at $31,845 compared to $28,807 at year-end 2015. The end of 2016 working capital exceeds UTMD's needs for normal operations and funding organic growth.

PP&E includes Utah, Ireland, England, Canada and Australia manufacturing molds, production tooling and equipment, test equipment, product development laboratory equipment, computers and software, warehouse equipment, furniture and fixtures, buildings and real estate. UTMD now owns facilities in Utah, Ireland, UK, Canada and Australia, the fungible market value of which increases UTMD's enterprise value relative to most of its industry peers. In late 2016, UTMD purchased a 4,700 square foot distribution facility in Canada and a 38,600 square foot facility in the UK to replace its currently leased facility when the lease expires in early 2018. The manufacturing facilities in Utah, Ireland and the UK are standalone buildings, whereas the distribution facilities in Australia and Canada are part of a larger industrial condominium. Ending 2016 net consolidated PP&E (depreciated book value of all fixed assets) increased $2,597 as a result of capital expenditures of $3,293, depreciation of $610 and the effect of FX rates on year-end foreign subsidiary asset balances.

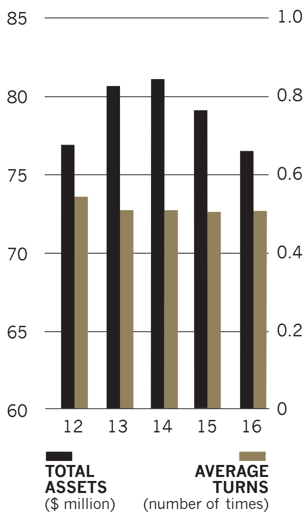
The following end-of-year FX rates in USD applied to all assets and liabilities of each applicable foreign subsidiary:

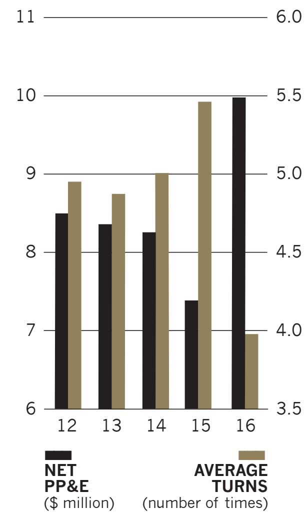
	12-31-16	12-31-15
EUR	1.0555	1.0866
GBP	1.2338	1.4763
AUD	0.7231	0.7294
CAD	0.7449	n/a

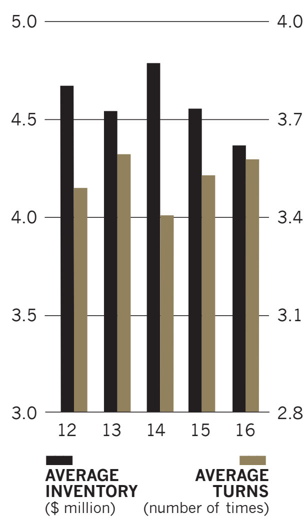
The year-end 2016 net book value (after accumulated depreciation) of consolidated PP&E was 33% of purchase cost. End-of-year PP&E turns (Net Sales divided by Net PP&E) declined to 3.9 in 2016 compared to 5.4 in 2015 due to the facility purchases in the UK and Canada. The future increase in productivity of fixed assets will be a source of future profitability. In 2017, except for additional investment to fit-out the UK facility, PP&E purchases to support ongoing operations are not expected to exceed depreciation of fixed assets.

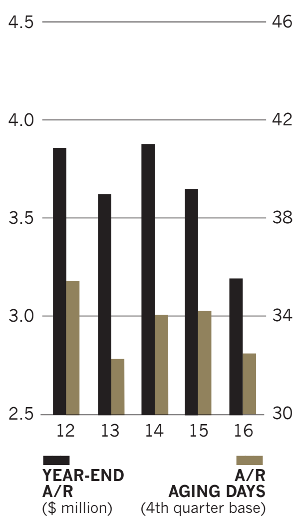
Net intangible assets (after accumulated amortization) are comprised of the capitalized costs of obtaining patents and other intellectual property, as well as IIA and goodwill resulting from acquisitions. Net intangible assets were $31,751 (41% of total assets) at the end of 2016 compared to $38,933 (49% of total assets) at the end of 2015. Per US GAAP, intangible assets are categorized as either 1) IIA, which are amortized over the estimated useful life of the assets, or 2) goodwill, which is not amortized or expensed until the associated economic value of the acquired asset becomes impaired. The two categories of Femcare intangibles at year-end 2016 were net IIA of $18,175 and goodwill of $6,296. The accumulated amortization of Femcare IIA as of December 31, 2016 since the March 18, 2011 acquisition was $11,518. UTMD's goodwill balance was $13,487 at the end of 2016, 42% of total net intangibles. Because the products associated with UTMD's acquisitions of Columbia Medical in 1997, Gesco in 1998, Abcorp in 2004 and Femcare in 2011 continue to be viable parts of UTMD's overall business, UTMD does not expect the current goodwill value associated with the four acquisitions to become impaired in 2017. Additions to intangibles in 2016 were $9, while there was $2,223 in amortization expense. The 2016 non-cash amortization expense of Femcare IIA was $2,167 (£1,599) compared to $2,467 (£1,615) in 2015. The USD difference was essentially due to the change in USD/GBP FX rate. The 2017 non-cash amortization expense of Femcare IIA will be £1,595, or $1,994 if the USD/GBP FX rate is 1.25.

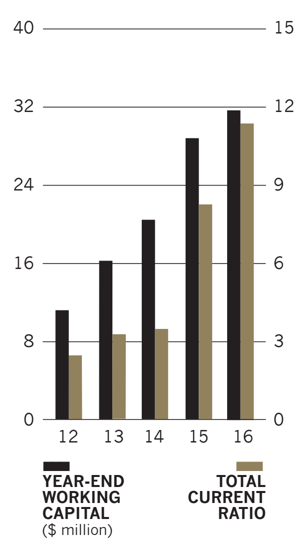
Liabilities. Current liabilities were $1,043 (26%) lower at the end of 2016 compared to the end of 2015 primarily because of a decrease of $834 in income tax payable due to unifying U.S. income tax payable and receivables balances to reflect a net receivable balance. Total liabilities declined $2,187 (23%) at the end of 2016 from the end of 2015. The resulting 2016 year-end total debt ratio was 10% compared to 12% at the end

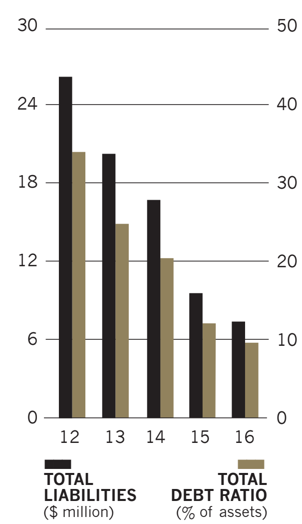












of 2015. Total liabilities declined primarily because of a $1,243 reduction in the DTL and the $798 netting of U.S. income tax payable noted above. The 2016 ending DTL, created as a result of the fifteen year deferred tax consequence of the amortization of Femcare's IIA, was $3,209, down from $4,452 at the end of 2015. The large decline in the DTL was the result of a combination of the $2,167 2016 amortization of IIA, the $123 4Q 2016 reduction in the DTL due to the enactment of lower future UK income tax rates, and the 16% change in the USD/GBP year-end FX rates. In addition to liabilities stated on the balance sheet, UTMD has operating lease and purchase obligations described in Note 7 to the financial statements.

Results of Operations

a) Revenues. Global Consolidated Sales in 2016 were $39,298 compared to $40,157 in 2015 and $41,278 in 2014. Compared to the applicable year earlier, the impact of a stronger USD on UTMD's outside the U.S. (OUS) foreign currency sales in both 2016 and 2015 essentially explained the reduction in consolidated USD-denominated revenues.

The Company believes that revenue should be recognized at the time of shipment as title generally passes to the customer at the time of shipment, or completion of services performed under contract. Revenue recognized by UTMD is based upon documented arrangements and fixed contracts in which the selling price is fixed prior to acceptance and completion of an order. Revenue from product or service sales is generally recognized at the time the product is shipped or service completed and invoiced, and collectibility is reasonably assured. Over 99% of UTMD's revenue is recognized at the time UTMD ships a physical medical device to a customer, where the selling price for the item shipped was agreed prior to UTMD's acceptance and completion of the customer order. There are no post-shipment obligations which have been or are expected to be material to financial results.

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

Terms of sale are established in advance of UTMD's acceptance of customer orders. In the U.S., Ireland, UK and Australia 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 is true beginning in 2017 with the addition of

Management's Discussion and Analysis *(continued)*

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 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 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 determine the fixed price by part number for the next agreement period of one or two years. 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. New customers typically have no longer than one-year agreements. Prices are not adjusted after an order is accepted. For the sake of clarity, the separate pricing agreements with clinical facilities based on volume of purchases disclosure is not inconsistent with UTMD's disclosure above that the selling price is fixed prior to the acceptance of a specific customer order.

UTMD's global consolidated trade sales are comprised of domestic and OUS sales. Domestic sales include 1) direct domestic sales, sales of finished devices to end-user facilities and med/surg distributors in the U.S.; 2) domestic OEM sales, sales of components or finished products, which may not be medical devices, to other companies for inclusion in their products; and 3) sales of the Filshie Clip System by Femcare UK to its U.S. distributor, CSI. OUS sales are sales from UTMD in the U.S. to customers outside the U.S. and all sales from UTMD subsidiaries in Ireland, Australia and the UK other than Femcare UK sales to CSI. The term "trade" means sales to customers which are not part of UTMD. Each UTMD entity except Femcare Australia also has 2016 intercompany sales of components and/or finished devices to other UTMD entities.

Total consolidated revenues in 2016 were $860 (2%) lower than in 2015. The two primary causes were 1) Filshie Clip System sales to CSI were $1,298 (31%) lower, and 2) the impact of FX rates reduced foreign currency sales by $600 (5%). Obviously, if sales to CSI had been the same as in 2015 and with constant FX currency, UTMD's total consolidated revenues would have been up $1,038 (+3%) instead of down 2%. In 2016 compared to 2015, domestic sales excluding CSI were 3% higher and OUS sales were essentially the same. On a constant currency basis, OUS sales were also 3% higher.

U.S. domestic sales in 2016 were $19,488 (50% of total sales) compared to $20,364 (51% of total sales) in 2015 and $19,483 (47% of total sales) in 2014. The lower CSI purchases of the Filshie Clip System from Femcare UK appears to be the result of CSI reducing its inventory of reusable classic applicators used to apply Filshie Clips on the Fallopian tubes. Not the reason for the decline, but as a related event, in December 2016 after 2.5 years from date of submission of a supplemental PMA, the U.S. FDA approved the U.S. marketing of Femcare's Sterishot single use applicator for applying Filshie Clips. OUS, a majority of Filshie Clip sterilization procedures already utilize the Sterishot, which UTMD believes significantly improves the safety and effectiveness of the tubal ligation procedure. The non-CSI domestic sales in 2016 included $13,624 (35% of total sales) direct sales of UTMD finished devices to U.S. end user facilities, which were $13,582 (34% of total sales) in 2015, and $2,936 (7% of total sales) sales of components and finished devices to U.S. OEM customers, which were $2,556 (6% of total sales) in 2015. By product category, domestic end user sales of neonatal products were $4,042 (7% lower), labor & delivery (L&D) products $3,868 (1% lower), BPM products $870 (11% higher) and gynecology/urology products excluding the Filshie Clip System $4,844 (7% higher).

OUS sales in 2016 were $19,809 compared to $19,793 in 2015 and $21,795 in 2014. OUS 2016 sales invoiced in foreign currencies were $11,436 (58% of total OUS sales and 29% of 2016 total consolidated sales) compared to $11,877 (60% of total OUS sales and 30% of 2015 total consolidated sales) because of a $600 (5%) decline in USD value for the same foreign currency sales due to the change in FX rates in 2016. Total OUS sales were 50% of global consolidated sales in 2016 compared to 49% in 2015 and 53% in 2014. The 5% negative FX rate impact on 29% of total sales created 1.5% lower total consolidated sales. In 2016, GBP, EUR and AUD converted to USD sales represented 12%, 11% and 6% of total 2016 consolidated sales, respectively. In 2015, GBP, EUR and AUD converted to USD sales represented 15%, 8% and 6% of total 2015 consolidated sales, respectively.

UTMD's FX rates for income statement purposes are transaction-weighted averages. The average FX rates from the applicable foreign currency to USD during 2016 compared to 2015 FX rates were:

	2016	2015	change
GBP	1.360	1.528	(11.0%)
EUR	1.105	1.105	+0.1%
AUD	0.745	0.750	(0.7%)
Sales Weighted Average			(4.8%)

Consolidated Statement of Income and Comprehensive Income

(In thousands, except per share amounts)

Years ended December 31,	2016	2015	2014
Sales, net (notes 10, 12 and 13)	$ 39,298	$ 40,157	$ 41,278
Cost of goods sold	15,608	15,972	16,295
Gross profit	23,690	24,185	24,983
Operating expense:			
Sales and marketing	1,673	2,164	2,211
Research and development	475	522	460
General and administrative	5,355	5,848	6,110
Operating income	16,187	15,651	16,202
Other income (expense):			
Dividend and interest income	12	5	7
Royalty income (note 13)	91	93	99
Interest expense	—	(65)	(289)
Other, net	132	(139)	(207)
Income before provision for income taxes	16,422	15,545	15,812
Provision for income taxes (note 8)	4,294	3,702	4,434
Net income	$ 12,128	$ 11,843	$ 11,378
Earnings per common share (basic) (note 1):	$ 3.23	$ 3.16	$ 3.04
Earnings per common share (diluted) (note 1):	$ 3.22	$ 3.14	$ 3.02
Other comprehensive income:			
Foreign currency translation net of taxes of $0 in all periods	$ (6,289)	$ (2,724)	$ (3,252)
Unrealized gain (loss) on investments net of taxes of $3, ($1) and $1	5	(2)	1
Total comprehensive income	$ 5,844	$ 9,117	$ 8,127

See accompanying notes to financial statements.

Management's Discussion and Analysis *(continued)*

USD-denominated trade (excludes intercompany) sales of devices to OUS customers by UTMD's Ireland facility (UTMD Ltd) were up $1,179 (+20%) for 2016 compared to 2015 because 1) the FX rate for the EUR was about the same for the year, 2) BPM kit sales to UTMD's China distributor were $643 higher, and 3) Filshie Sterishot kits manufactured in Ireland and shipped directly to OUS distributors were $276 (+12%) higher compared to 2015. In EUR terms, UTMD Ltd 2016 sales including intercompany shipments were up 18% for the year.

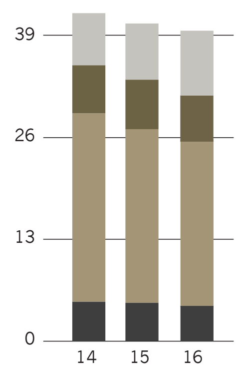
USD-denominated 2016 trade sales of devices to domestic UK and OUS customers of Femcare-Nikomed, Ltd (UK subsidiary), excluding intercompany sales, were down $851 (15%) compared to 2015, partly due to the weaker GBP but also due to the continued conversion of OUS Sterishot kit shipments to Ireland. In GBP terms, 2016 UK subsidiary sales including intercompany shipments were down 11% for the year.

USD-denominated sales of devices to end-users in Australia by Femcare's Australia distribution subsidiary (Femcare Australia) were down 7% in 2016 compared to the previous year. The FX rate for the AUD did not significantly adversely affect USD-denominated AUD sales as it did in 2015.

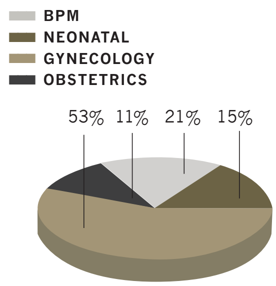
As demonstrated in both 2016 and 2015, fluctuations in FX rates relative to the USD can have a significant effect on consolidated sales reported in USD terms. In 2017, UTMD's consolidated results will include an FX rate for an additional foreign currency, the Canadian Dollar. In the current geopolitical economic environment, in particular given the uncertainty of implementation of policies of a new U.S. administration, UTMD management is unable to predict with any certainty the direction and impact of FX rates on 2017 sales results. If FX rates remain near 2016 ending levels and GBP invoiced sales remain about the same as in 2016, a further FX rate induced decline of about 1% of total consolidated sales would likely occur in 2017, as the most significant weakening of the GBP to its current FX rate began in the middle of 2016. In 2017, direct sales to end user facilities in Canada and France will enhance total sales, depending on UTMD's success in retaining the previous distributor sales, which is likely.

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

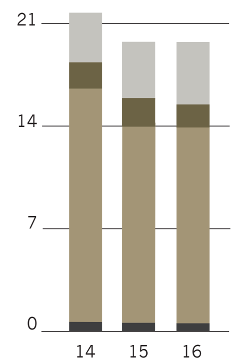
PRODUCT LINE SALES BY SALES CHANNEL



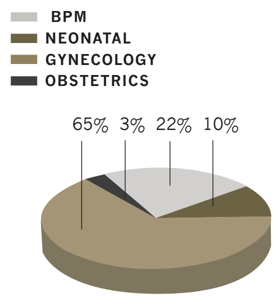
GLOBAL SALES BY PRODUCT LINE
(millions of dollars)



2016 REVENUE BY PRODUCT LINE
(percent of sales)



INTERNATIONAL SALES BY PRODUCT LINE
(millions of dollars)



2016 INTERNATIONAL REVENUE BY PRODUCT LINE
(percent of sales)

Global revenues by product category	2016	%	2015	%	2014	%
Obstetrics	$ 4,532	12	$ 4,587	11	$ 4,669	11
Gynecology/ Electrosurgery/ Urology	20,683	53	22,356	56	24,088	58
Neonatal	6,007	15	6,299	16	6,222	15
Blood Pressure Monitoring and Accessories*	8,076	20	6,915	17	6,299	15
Total:	$39,298	100	$40,157	100	$41,278	100

Outside the U.S. revenues by product category	2016	%	2015	%	2014	%
Obstetrics	$ 658	3	$ 670	3	$ 642	3
Gynecology/ Electrosurgery/ Urology	12,851	65	13,532	68	15,928	73
Neonatal	1,965	10	1,936	10	1,844	8
Blood Pressure Monitoring and Accessories*	4,335	22	3,653	19	3,381	16
Total:	$19,809	100	$19,793	100	$21,795	100

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

As a summary description of revenues in the above tables:

1. Obstetrics. Increases in sales of newer devices helped offset declines from competition with older devices.

2. The gynecology/ electrosurgery/ urology (ES/Gyn) product category, which includes all of Femcare's products, was the category most negatively affected by the changes in FX rates. Lower sales to CSI, which alone were down $1,298, are included in this category. Consolidated electrosurgery/ urology device sales were $479 (6%) higher.

3. Neonatal intensive care unit (NICU) device sales declined in the U.S. due to a conversion of UTMD's Nutri-Lok enteral feeding devices by some hospital customers as a result of a new ENFIT FDA recommended standard.

4. Global blood pressure monitoring and accessories (BPM) sales were helped by $643 higher sales to UTMD's China distributor. U.S. OEM domestic BPM sales in 2016 increased 16% as a result of $390 higher sales.

For calendar year 2017, UTMD's revenues will benefit from adding the previous distributor margin for direct Filshie Clip System sales in Canada and France. Sales in 2016, 2015 and 2014 to the distributor in Canada, however, included a $500 marketing rights fee which will no longer be realized by UTMD.

b) Gross Profit (GP). UTMD's 2016 consolidated GP, the surplus after subtracting costs of manufacturing (CGS), which includes purchasing raw materials, forming components, assembling, inspecting, testing, packaging, sterilizing and shipping products, from net revenues, was $23,690 compared to $24,185 in 2015 and $24,983 in 2014. UTMD's average gross profit margin (GPM), consolidated gross profits expressed as a percentage of consolidated net sales, was 60.3% in 2016 compared to 60.2% in 2015 and 60.5% in 2014. The GPM in 2016 was consistent with the two prior years despite lower sales as UTMD maintained consistent labor productivity allowed by its experienced labor force, restrained direct material cost increases through higher order quantities of raw materials, in particular molding compounds, and offset reduced U.S. fixed overhead absorption through increasing work done internally by its Ireland subsidiary instead of by outside suppliers.

With few exceptions, device unit prices to customers remained the same as in the prior year. Because UTMD's medical devices are differentiated and not subject to GPO agreements in the U.S., the Company was generally able to avoid price reduction pressures.

UTMD's Ireland subsidiary's (UTMD Ltd) GP was EUR 3,988 in 2016 compared to EUR 3,312 in 2015 and EUR 1,293 in 2014. The associated GPMs were 49.5% in 2016, 48.5% in 2015 and 34.5% in 2014. The increasing gross profits since 2014 were due to substantially higher sales without proportionate cost increases from 1) UTMD Ltd directly selling devices to Ireland domestic clinical users instead of selling through distributors, 2) UTMD Ltd directly selling devices that it manufactures to OUS customers previously sold by Femcare UK, and 3) increased intercompany sales (priced at a 10% discount from standard distributor prices) from manufacturing finished devices previously purchased from outside vendors by Femcare UK.

Femcare UK GP was GBP 4,138 in 2016 compared to GBP 4,607 in 2015 and GBP 5,895 in 2014. Despite domestic UK sales which were up 7% in GBP in 2016, UK GP in GBP declined due to 1) transfer of OUS revenues to UTMD Ltd for Femcare devices now manufactured in Ireland, and 2) the 2016 lower Filshie Clip System sales to CSI in the U.S.. Despite lower total Femcare UK sales, the GPM improved to 69.4% in 2016 compared to 68.8% in 2015 and 67.6% in 2014 due to reductions in manufacturing overhead costs.

Femcare AUS is purely a distribution operation for UTMD finished devices in Australia. GP was AUD 2,049 in 2016 compared to AUD 1,971 in 2015 and AUD 2,001 in 2014. Femcare AUS GPMs were 65.1% in 2016, 58.4% in 2015 and 57.1% in 2014. Gross Profit and the unusual GPM were higher in 2016 despite 7% lower AUD sales because of tightly managed transportation costs including less frequent incoming shipments of purchased goods yielding higher inventory, and a one-time AUD inventory revaluation in 2016. The value of finished devices in inventory at each subsidiary is set by the intercompany transfer price, but the value over the cost of manufacture is eliminated from consolidated gross profits. AUS end user sales prices have not changed.

In the U.S., GP was $12,547 in 2016 compared to $12,222 in 2015 and $11,802 in 2014. GPMs were 54.3% in 2016, 54.2% in 2015 and 53.7% in 2014. The 2016 GPM was consistent with 2015 because total sales from Utah, trade and intercompany together, were 2.6% higher while CGS were 2.5% higher. UTMD's experienced assemblers were able to maintain consistent labor productivity and improve yields. Some senior employees retired and were replaced with more junior employees. Higher molding costs were offset by improved assembly yields and reductions in overheads.

A summation of the above 2016 GP of each subsidiary will not yield consolidated total GP because of elimination of profit in inventory of intercompany goods. In 2016, UTMD was able to achieve a higher GPM than projected at the beginning of the year despite 2% lower consolidated sales. The GPM in 2017 is expected to be higher than in 2016 as a result of direct sales to end user facilities in Canada and France. The distributor margin, the difference between the price of UTMD devices purchased by the former Canada and France distributors and the end user purchase price, will incrementally increase sales as well as GP by the same amount less intercompany transportation costs and the Canada marketing rights fee. The former distributors paid the transportation costs from the applicable UTMD manufacturing facility.

c) Operating Income (OI). OI is the surplus after OE are subtracted from GP. Consolidated OI in 2016 was $16,187 compared to $15,651 in 2015 and $16,202 in 2014. UTMD's consolidated OI margin (OIM), consolidated OI divided by total sales, was 41.2% in 2016, compared to 39.0% in 2015 and 39.3% in 2014. The UTMD Ltd OIM in 2016 was 45.9% compared to 44.5% in 2015 and 27.3% in 2014. Femcare UK's 2016 OIM was 30.3% compared to 32.5% in 2015 and 39.7% in 2014. Femcare AUS's 2016 OIM was 54.3% compared to 46.5% in 2015 and 42.4% in 2014. UTMD U.S. OIM in 2016 was 38.1% compared to 35.4% in 2015 and 35.6% in 2014.

OE include sales and marketing (S&M) expenses, product development (R&D) expenses and general and administrative (G&A) expenses. Consolidated OE were $7,503 in 2016, compared to $8,534 in 2015 and $8,781 in 2014. When it comes to expenses incurred in foreign currencies, a stronger USD has a positive FX rate impact, not negative. Constant currency (using same FX rates as in 2015) OE in 2016 were $409 higher than reported. $406 (99%) of the $409 favorable difference was due to the weaker GBP, particularly in 2H 2016. The largest single FX impact was in UK IIA amortization expense, which is part of G&A expenses. UK IIA amortization expense was GBP 1,599 in 2016 and GBP 1,615 in 2015, a minor difference. But as a result of the lower FX rate for GBP conversion to USD, the USD amortization expense was $300 lower in 2016 than in 2015. Constant currency 2016 G&A expenses excluding the IIA expense were $90 higher than reported. Constant currency 2016 S&M expenses were $38 higher than reported. Almost as significant as the $300 reduction in IIA amortization expense was a $283 reduction in S&M expense due to the 2016 suspension of the U.S. Medical Device Excise Tax (MDET). Constant currency 2016 R&D expenses were $2 higher than reported. Because of UTMD's better than projected GPM and more favorable than expected FX rate impact on UK OE, 2016 OI increased (+3.4%) more than projected in UTMD's 2015 SEC Form 10-K. The following table provides a comparison of operating expense categories for the last three years.

	2016	2015	2014
S&M expenses excluding the MDET	$ 1,673	$ 1,881	$ 1,930
S&M expenses – U.S. MDET	0	283	281
R&D expenses	475	522	460
G&A expenses:			
a) litigation expense provision	54	40	80
b) corporate legal	15	70	34
c) stock option compensation	92	87	74
d) management bonus accrual	445	465	645
e) outside accounting audit/tax	199	191	227
f) intangible asset amortization	2,223	2,528	2,719
g) property & liability insurance premiums	178	231	290
h) all other G&A expenses	2,149	2,236	2,041
G&A expenses – total	5,335	5,848	6,110
Total Consolidated OE:	$ 7,503	$ 8,534	$ 8,781
Consolidated OE % of sales:	19.1%	21.3%	21.3%

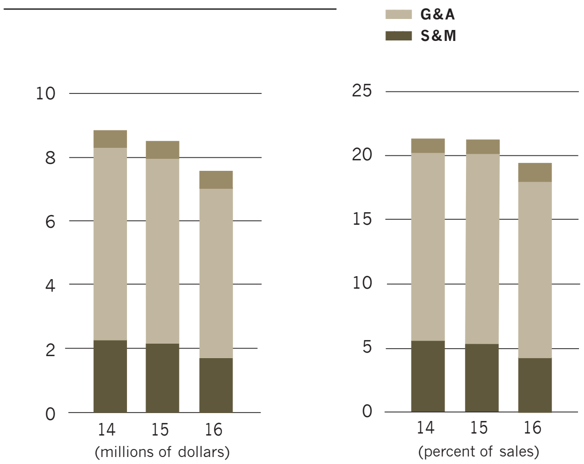
Description of Operating Expenses

1. S&M expenses. S&M expenses are the costs of communicating UTMD's differences and product advantages, providing training and other customer service in support of the use of UTMD's solutions, attending clinical meetings and medical trade shows, administering customer agreements, advertising, processing orders, shipping, paying commissions to outside independent representatives and, if applicable, paying the MDET in the U.S. In markets where UTMD sells directly to end-users, which in 2016 was the U.S., Ireland, UK and Australia, the largest components of S&M expenses were the cost of employing direct sales representatives, including associated costs of travel, subsistence and communications and the cost of customer service required to timely process orders. The trade-off between higher gross profit margins for selling directly at end user prices is higher S&M expenses as a percent of sales. Starting in 2017, UTMD is selling direct to end user facilities in Canada and France. The 2017 S&M expenses associated with direct France sales will be absorbed by the UK subsidiary without increasing resources significantly, helping offset the prior declining UK OIM. The 2017 S&M expenses associated with UTMD's new Canada subsidiary, formally Utah Medical Products Canada Limited, but operating as Femcare Canada, will be similar to the operating costs incurred in 2014 when UTMD set up its own distribution facility and employees in Australia. Like Femcare Australia, Femcare Canada will be purely a distribution operation.

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

UTMD promises prospective customers that it will provide, at no charge in reasonable quantities, electronic media and other instructional materials developed for the use of its products. UTMD provides customer support from offices in the U.S., Canada, Ireland, UK and Australia by telephone to answer user questions and help troubleshoot any user issues. Occasionally, on a case-by-case basis, UTMD may utilize the services of an independent practitioner to provide educational assistance to clinicians. All in-service and training expenses are routinely expensed as they occur. Except for the consulting services of independent practitioners and occasional use of marketing consultants, all of these services are allocated from fixed S&M

OPERATING EXPENSE DETAIL



overhead costs included in OE. Historically, marginal consulting costs have been immaterial to financial results, which is also UTMD's expectation for the future.

The MDET, a component of the Patient Protection and Affordable Care Act, (known commonly as Obamacare) was effective between 2013 and 2015. In December 2015, U.S. legislators suspended the MDET for 2016 and 2017. The excise tax was 2.3% of domestic sales of medical devices listed with the FDA. Medical devices designed for human use were taxed, whether or not they were sold for human use, e.g. veterinarian uses or laboratory use were also taxed. The impact of the tax was felt beyond 2.3%, as costs associated with administering, tracking, collecting and paying the tax were significant.

As a percent of total sales, S&M OE (excluding the MDET) were 4.3% in 2016 (when there was no MDET) compared to 4.7% in both 2015 and 2014. S&M expenses including the MDET were 5.4% of sales in both 2015 and 2014. With the planned addition of S&M resources in 2017, S&M expenses as a percentage of total revenues are expected to increase.

2. R&D expenses. R&D expenses include the costs of investigating clinical needs, developing innovative concepts, testing concepts for viability, validating methods of manufacture, completing any necessary premarketing clinical trials, regulatory documentation and other activities required for design control, responding to customer requests for product enhancements, and assisting manufacturing engineering on an ongoing basis in developing new processes or improving existing processes. The actual expenses are included in the OE table above. As a percent of sales, R&D expenses were 1.2% in 2016 compared to 1.3% in 2015 and 1.1% in 2014. R&D expenses in 2017 are planned to be about $500.

3. G&A expenses. G&A expenses include the "front office" functional costs of executive management, finance and accounting, corporate information systems, human resources, stockholder relations, corporate risk management, corporate governance, protection of intellectual property, amortization of identifiable intangibles and legal costs. G&A expenses in 2016 were $5,355 (13.6% of total consolidated sales) compared to $5,848 (14.6% of total consolidated sales) in 2015 and $6,110 (14.8% of total consolidated sales) in 2014. As previously noted, the FX impact of a weaker GBP in 2016 than in 2015 reduced UK G&A expenses, including amortization of IIA expense, by $366. The table above helps clarify several specific categories of G&A expenses. U.S. G&A expenses included in the 2016 "all other" category were $150 lower from lower acquisition expenses together with lower executive officer salaries. Also included in the 2016 "all other" G&A expense category were $45 in Canada subsidiary start-up expenses.

In summary, in 2017, UTMD expects OE to be $200 to $300 higher than in 2016 due to 1) the addition of the Canada subsidiary, 2) an FX assumption incorporating a further GBP FX benefit reducing UK operating expenses another 3%, `and 3) not including unforeseen litigation expenses or possible acquisition costs. OI in 2017 is expected to be leveraged by a higher GPM due to direct sales in Canada and France, as well as an incremental absorption of existing OE overheads in the UK and the U.S. Although management is not able to project 2017 sales due to geopolitical uncertainties affecting OUS sales, if consolidated sales do increase by 2-3%, OI should be further leveraged to an increase in the range of 6-8%.

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

Net NOI (combination of NOE and NOI) was $235 in 2016 compared to Net NOE of $105 in 2015 and Net NOE of $390 in 2014. UTMD's 2016 NOI included a $129 gain compared to 2015 NOE from a $141 loss on remeasured foreign currency value as a result of FX, primarily for EUR bank balances held in the UK. In 2014, the remeasured foreign currency value resulted in a $162 NOE. A description of NOE and NOI components follows:

1. Interest Expense. There was no interest expense in 2016 compared to $65 in 2015 interest on the remaining balances on loans needed to help acquire Femcare in 2011. Absent an acquisition or large repurchase of shares that requires new borrowing, UTMD does not expect any interest expense in 2017.

2. Investment of excess cash. Consolidated investment income (including gains and losses on sales of investments) was $12 in 2016 compared to $5 in 2015 and $7 in 2014. Cash is generally currently held in non-interest bearing bank accounts because avoiding the bank operating fees which would result from lower balances more than offsets the interest that can be earned at current interest rates. UTMD estimates investment income will again be nominal in 2017.

3. Royalties. Femcare receives a royalty from licensing the use of the Filshie Clip System intangibles to CSI as part of its U.S. exclusive distribution agreement. Royalties in 2016 were $91 compared to $93 in 2015 and $99 in 2014. UTMD expects to receive about $90 in CSI royalties in 2017. Presently, there are no arrangements under which UTMD is receiving royalties from other parties.

4. Gains/losses from remeasured currency in bank accounts. As noted above, UTMD recognized 2016 NOI of $129 from gains on remeasured foreign currency bank balances compared to NOE of $141 in 2015 and $162 in 2014 from losses on remeasured foreign currency bank balances. EUR and AUD currency cash balances in the UK, and GBP currency cash bank balances in Ireland, are subject to remeasured currency translation gains/ losses as a result of period to period changes in FX rates. Because of UTMD's subsidiaries' profitability, the subsidiaries will continue to accumulate cash until investments that increase stockholder value are completed. The cash could be repatriated to the U.S. for investment in the U.S. or payment of dividends to stockholders or share repurchases, but doing so would trigger additional substantial U.S. income taxes. The current U.S. Congress has been discussing enacting a special tax holiday for foreign cash repatriated in 2017. Year-end 2016 balances were valued at the following FX rates: 1.0555 USD/EUR; 0.7449 USD/CAD, 0.7231 USD/AUD and 1.2338 USD/GBP. No remeasured currency gains or losses are included in UTMD's projections for 2017.

5. Other NOI. Income received from renting unused warehouse space in Ireland and parking lot space in Utah for a cell phone tower, offset by bank fees and non-MDET excise taxes was $3 in both 2016 and 2015 compared to $(45) in 2014. UTMD estimates Other NOI will be nominal again in 2017.

In summary, with no interest and no remeasured currency FX translation gains or losses in 2017, UTMD projects about $110 net NOI, which is $125 net lower NOI in 2017 compared to 2016.

Income before Taxes (EBT) results from adding net NOI or subtracting net NOE from OI. Consolidated EBT was $16,422 in 2016 compared to $15,545 in 2015 and $15,812 in 2014. UTMD had projected 2016 EBT in the range of $15.9 to $16.1 million in its 2015 SEC 10-K report. EBT margin (EBTM) is EBT divided by total consolidated sales. UTMD's continued excellent consolidated EBTM was 41.8% in 2016, 38.7% in 2015, and 38.3% in 2014. The EBT of UTMD Ltd. (Ireland) was €3,489 in 2016, €2,890 in 2015, and €995 in 2014. The respective EBTMs of UTMD Ltd. (Ireland) were 43.3% in 2016, 42.2% in 2015, and 26.5% in 2014. Femcare UK's 2016 EBT was £2,141 compared to £2,243 in 2015 and £3,311 in 2014. UK EBTMs were 35.9% in 2016, 33.5% in 2015, and 38.0% in 2014. Femcare AUS's 2016 EBT was AUD 1,713 compared to AUD 1,580 in 2015 and AUD 1,493 in 2014. AUS EBTMs were 54.4% in 2016, 46.8% in 2015, and 42.6% in 2014.

With the assumption of 2-3% higher consolidated sales, UTMD is targeting consolidated 2017 EBT in the range of $17.2 to $17.6 million, 5-7% higher than 2016 EBT

e) Net Income (NI), EPS and ROE. NI is EBT minus income taxes, often called the "bottom line". NI was $12,128 (30.9% of consolidated sales) in 2016, $11,843 (29.5% of sales) in 2015 and $11,378 (27.6% of sales) in 2014. EPS were $3.220 in 2016, $3.140 in 2015 and $3.015 in 2014. NI and EPS in 2016 benefited from a $123 reduction in the 2016 income tax provision (increasing NI $123 and EPS $.033) due to the UK enacting lower corporate income tax rates beginning in 2020 for the last six year amortization life of Femcare IIA. Similarly, the 2015 NI included a $351 increase to NI and a $.093 increase to 2015 EPS resulting from a reduction in the 2015 income tax provision as a result of a DTL adjustment due to the enactment of lower future income tax rates in the UK beginning in April 2017. The DTL was adjusted in compliance with US GAAP by the cumulative impact of lower future UK corporate tax rates over the remaining life of Femcare IIA. For clarity, the 2016 $123 and 2015 $351 reductions in income tax provisions increased 2016 and 2015 NI, respectively, by the same amounts. Without the DTL adjustment, non-GAAP 2016 NI was $12,004 ($3.187 EPS) and non-GAAP 2015 NI was $11,493 ($3.047 EPS). Non-GAAP NI increased 4% and non-GAAP EPS increased 5% compared to 2015.

As stockholders likely remember, in March 2011 UTMD acquired 100% of the stock of Femcare Holdings Limited in the UK, and its subsidiaries (Femcare). Included in the purchase price were IIA of $38.8 million, almost all of which are being amortized over a fifteen-year useful life, with the amortization expense included in (G&A) operating expenses. The annual amortization expense reduces the income statement tax provision, but is not deductible on the tax return. As a consequence, on the acquisition date in 2011, UTMD created a DTL on its balance sheet, using UK tax rates then in effect, which represented the future tax impact of the amortization of IIA over the fifteen year life.

According to US GAAP, the total effect of tax rate changes on deferred tax balances is recorded as a component of the income tax provision related to continuing operations in the period in which the law is enacted. In other words, the total reduction in the DTL in 2016 that resulted from lower future tax rates over the remaining 6 years of Femcare IIA amortization, which amounted to $123, reduced UTMD's reported 2016 tax provision and increased reported NI by the same amount per US GAAP. The adjustment only affected UTMD's income tax provision, NI and EPS, not Consolidated Revenues (Sales), GP, OI or EBT.

UTMD's NI Margins (NIM) in 2016 compared to 2015 on a non-GAAP basis (before the DTL adjustments) were as follows:

	2016	2015
Net Income Margin (non-GAAP)	**30.5%**	**28.6%**

The Company believes that investors benefit from referring to the 2016 and 2015 non-GAAP financial measures in assessing UTMD's performance. The non-GAAP financial measures also facilitate management's internal comparisons for purposes of planning future performance. The non-GAAP financial measures disclosed by UTMD should not be considered a substitute for or superior to financial measures calculated in accordance with GAAP, and the financial results calculated in accordance with GAAP and reconciliations to those financial statements should be carefully evaluated.

The effective 2016 consolidated corporate income tax provision rate was 26.1% (26.9% without the DTL adjustment), 23.8% (26.1% without the DTL adjustment) in 2015, and 28.0% in 2014. Excluding the effect on the income tax provisions for the DTL adjustments, about half of the 0.8 percentage point higher consolidated tax provision rate in 2016 resulted from the change in proportion of UTMD U.S. profits, the sovereignty with the highest income tax rate and about half due to the elimination of profits in inventory. For income tax provision purposes, intercompany shipments generate profits which are taxable in each applicable sovereignty. However, upon consolidation, those profits are eliminated while the provision remains the same, increasing the average provision rate as a percentage of consolidated EBT. In general, year to year fluctuations in the tax rate will result from variation in EBT contribution from subsidiaries in jurisdictions with different corporate income tax rates. The UK had an income tax rate of 20% in 2016 compared to a rate of 21% in 1Q 2015 and a rate of 20% thereafter. The UK also allows a tax deduction for sales of UK patented products which varies from year-to-year based on somewhat complicated rules which are sorted out for UTMD by independent tax accountants. The current UK income tax rate of 20% is scheduled to decline to 19% beginning April 1, 2017 and then to 17% on April 1, 2020. The income tax rate for AUS has been and is planned to remain at 30%. Profits of the Ireland subsidiary are taxed at a 12.5% rate on exported manufactured products, and a 25% rate on rental and other types of income including income from sales of medical devices in Ireland domestically. EBT contribution of UTMD U.S. operations are currently taxed at a 39% combined Federal and State rate prior to special U.S. tax exclusions such as the manufacturing profit deduction, accelerated depreciation of certain assets and R&D tax credit. Currently, higher marginal income tax rates would apply for EBT in the U.S. above $10 million. For 2017, Canada's income tax rate of 25% will apply to Femcare Canada's EBT. Management expects that the average consolidated income tax provision rate may be a percentage point higher in 2017 compared to 2016 (excluding the DTL adjustment) due to changes in the EBT mix of subsidiaries and changes in deductions. The possibility of a lower corporate income tax rate in the U.S. is not anticipated in UTMD's projection for 2017, but because of UTMD's profitability, reductions being discussed currently in Congress would have a significantly favorable impact on 2017 NI and EPS, if enacted.

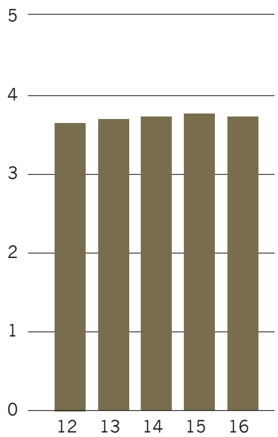
EPS are NI divided by the number of shares of stock outstanding (diluted to take into consideration stock option awards which are "in the money," i.e., have exercise prices below the applicable period's weighted average market value). As noted above, diluted EPS were $3.220 in 2016 ($3.187 prior to the DTL adjustment), $3.140 in 2015 ($3.047 prior to the DTL adjustment) and $3.015 in 2014. The 2016 results exceeded management's EPS projection of $3.10 - $3.14 (excluding the DTL adjustment) provided in the 2015 SEC 10-K Report.

Consolidated Statement of Cash Flow

(In thousands)

Years Ended December 31,	2016	2015	2014
Cash flows from operating activities:			
Net income	$ 12,128	$ 11,843	$ 11,378
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	610	619	637
Amortization	2,223	2,528	2,719
Provision for (recovery of) losses on accounts receivable	0	(10)	(27)
Loss on disposal of assets	5	1	35
Deferred income taxes	(484)	(901)	(500)
Stock-based compensation expense	92	87	74
(Increase) decrease in:			
Accounts receivable	295	137	(365)
Income tax and other receivables	897	(91)	(100)
Inventories	(360)	422	(141)
Prepaid expenses and other current assets	23	28	(19)
Increase (decrease) in:			
Accounts payable	286	(265)	188
Accrued expenses	(1,187)	(597)	(1508)
Net cash provided by operating activities	14,528	13,801	15,387
Cash flows from investing activities:			
Capital expenditures for:			
Property and equipment	(3,293)	(176)	(1,110)
Intangible assets	(9)	(70)	(22)
Net cash provided by (used in) investing activities	(3,302)	(246)	(1,132)
Cash flows from financing activities:			
Proceeds from issuance of common stock — options	376	343	491
Common stock purchased and retired	(2,850)	(683)	(1,055)
Payment of taxes for exchange of stock options	—	(42)	—
Tax benefit attributable to exercise of stock options	50	114	103
Repayments of notes payable	—	(4,777)	(4,035)
Dividends paid	(3,916)	(3,846)	(3,765)
Net cash provided by (used in) financing activities	(6,340)	(8,891)	(8,261)
Effect of exchange rate changes on cash	(1,868)	(660)	(1,115)
Net increase in cash and cash equivalents	3,018	4,004	4,879
Cash at beginning of year	23,278	19,274	14,395
Cash at end of year	$ 26,296	$ 23,278	$ 19,274
Supplemental Disclosure of Cash Flow Information.			
Cash paid during the year for:			
Income taxes	$ 4,846	$ 5,341	$ 3,094
Interest	—	65	296

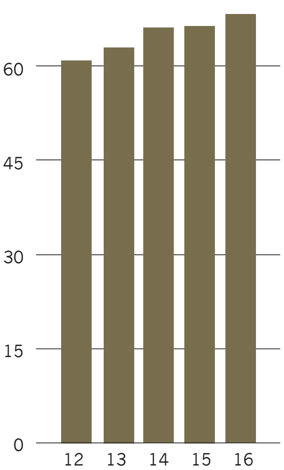
See accompanying notes to financial statements.



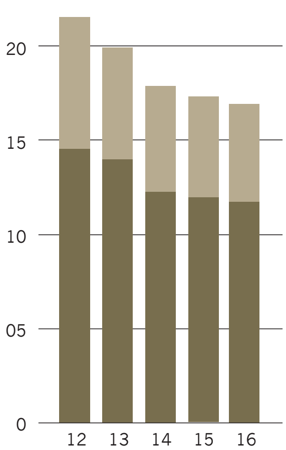
DILUTED SHARES OUTSTANDING
(millions of shares)

The 2016-ending weighted average number of diluted common shares (the number used to calculate diluted EPS) was 3,766 (in thousands), compared to 3,772 shares in 2015 and 3,774 shares in 2014. EPS in 2016 benefited slightly from UTMD's November 2016 repurchase of 50,000 shares from an institutional investor. Dilution for "in the money" unexercised options for the year 2016 was 15 shares, compared to 20 in 2015 and 27 in 2014. Actual outstanding common shares as of December 31, 2016 were 3,713.

In summary, UTMD management expects to continue its pattern of steadily improving NI and EPS in 2017 (excluding the DTL adjustments), despite being unable to predict revenue growth with reasonable certainty. UTMD's calendar year 2017 operating plan, which for conservative reasons excludes additional share repurchases, an income tax reduction in the U.S., acquisitions and potential sales growth from new products, projects a low single digit increase in consolidated revenues with more leveraged profits, yielding higher single digit growth in NI and EPS.



YEAR-END INSTITUTIONAL OWNERSHIP
(percent of total ownership)



RETURN ON EQUITY
(percent)
Dividends paid

Return on stockholders' equity (ROE) is the portion of NI retained by UTMD (after payment of dividends) to internally finance its growth, divided by the average accumulated stockholders' equity during the applicable time period. ROE includes balance sheet measures as well as income statement measures. ROE for 2016 was 12%, the same as in 2015 and 2014. Before payment of dividends, 2016 ROE was 17% compared to 18% in both 2015 and 2014. UTMD's ROE is primarily driven by its high NIM although share repurchases and dividends help by reducing stockholders' equity. UTMD's 2016 ROE (before dividends) compared to 2015 was slightly diluted because the 2.4% increase in NI was lower than the 3.5% increase in average stockholders' equity. UTMD's ROE (before dividends) has averaged 28% per year over the last 31 years. This ratio determines how fast the Company can afford to grow without diluting stockholder interest. For example, a 20% ROE will financially support 20% annual growth in revenues without having to issue more stock.

Average 2016 Stockholders' Equity was $69,445. Year-end 2016 Stockholders' Equity was $69,243. Even though 2016 NI was $12,128, which increases Stockholders' Equity, year-end Stockholders' Equity was lower because of 2016 stock repurchases of $2,850, dividend payments of $3,916 and significant revaluation of foreign subsidiary assets in USD terms, including especially accumulated foreign currency cash balances, due to the differences in year ending FX rates.

Liquidity and Capital Resources

Cash Flows. Net cash provided by operating activities, including adjustments for depreciation and other non-cash operating expenses, along with changes in working capital and the tax benefit attributable to exercise of employee incentive stock options, totaled $14,528 in 2016, compared to $13,801 in 2015 and $15,387 in 2014. The largest changes in 2016 compared to 2015 were a decrease of $897 in income tax and other receivables following a $91 increase in the prior year, a $360 use of cash from an increase in inventories following a $422 decrease in the prior year, a $1,187 use of cash from a further reduction in accrued expenses following a $597 reduction in the prior year, and a $286 benefit to cash from an increase in accounts payable following a $265 decrease in 2015. Other changes were generally consistent with effective working capital management and sales activity. The decrease in income tax and other receivables was mainly due to consolidating the income tax payable and receivable balances to reflect the net receivable balance.

The Company's notes payable repayments of $4,777 in 2015 and $4,035 in 2014 were the most significant uses of cash in each of those years. The loans were paid off in early 2015, so no loan principal payments were required in 2016. Loans of $26,934 were obtained in 2011 to help finance the acquisition of Femcare. In investing activities, during 2016 UTMD used $3,293 for capital expenditures and $9 for capitalized intangible assets. During 2016 UTMD purchased a 4,700 square foot distribution facility in Canada and a 38,600 square

Consolidated Statement of Stockholders' Equity

(In thousands)

Years Ended December 31, 2016, 2015 and 2014

	Common Stock		Additional Paid-in	Accumulated Other Comprehensive	Retained	Total Stockholders'
	Shares	Amount	Capital	Income	Earnings	Equity
Balance at December 31, 2013	3,743	$ 37	$ 3,278	$ 16	$ 57,250	$ 60,581
Shares issued upon exercise of employee stock option for cash	35	0	926	—	—	926
Shares received and retired upon exercise of stock options	(8)	(0)	(435)	—	—	(435)
Tax benefit attributable to appreciation of stock options	—	—	103	—	—	103
Stock option compensation expense	—	—	74	—	—	74
Common stock purchased and retired	(22)	(0)	(1,055)	—	—	(1,055)
Foreign currency translation adjustment	—	—	—	(3,252)	—	(3,252)
Unrealized holding gain (loss) from investments, available-for-sale, net of taxes	—	—	—	1	—	1
Common stock dividends	—	—	—	—	(3,675)	(3,675)
Net income	—	—	—	—	11,378	11,378
Balance at December 31, 2014	3,748	$ 37	$ 2,890	$ (3,234)	$ 64,863	$ 64,556
Shares issued upon exercise of employee stock option for cash	22	0	640	—	—	640
Shares received and retired upon exercise of stock options	(8)	(0)	(338)	—	—	(338)
Tax benefit attributable to appreciation of stock options	—	—	114	—	—	114
Stock option compensation expense	—	—	87	—	—	87
Common stock purchased and retired	(13)	(0)	(683)	—	—	(683)
Foreign currency translation adjustment	—	—	—	(2,724)	—	(2,724)
Unrealized holding gain (loss) from investments, available-for-sale, net of taxes	—	—	—	(2)	—	(2)
Common stock dividends	—	—	—	—	(3,846)	(3,846)
Net income	—	—	—	—	11,843	11,843
Balance at December 31, 2015	3,751	$ 38	$ 2,710	$ (5,961)	$ 72,861	$ 69,648
Shares issued upon exercise of employee stock option for cash	13	0	431	—	—	431
Shares received and retired upon exercise of stock options	(1)	(0)	(56)	—	—	(56)
Tax benefit attributable to appreciation of stock options	—	—	50	—	—	50
Stock option compensation expense	—	—	92	—	—	92
Common stock purchased and retired	(50)	(1)	(2,849)	—	—	(2,850)
Foreign currency translation adjustment	—	—	—	(6,289)	—	(6,289)
Unrealized holding gain (loss) from investments, available-for-sale, net of taxes	—	—	—	5	—	5
Common stock dividends	—	—	—	—	(3,916)	(3,916)
Net income	—	—	—	—	12,128	12,128
Balance at December 31, 2016	3,713	$ 38	$ 378	$(12,243)	$ 81,072	$ 69,244

See accompanying notes to financial statements.

foot unfinished facility in the UK to replace its leased facility when the UK lease expires in early 2018.

In 2016, UTMD received $376 and issued 11,945 shares of stock upon the exercise of employee and director stock options. Employees and directors exercised a total of 12,806 option shares in 2016, with 861 shares immediately being retired as a result of optionees trading the shares in payment of the exercise price of the options. Option exercises in 2016 were at an average price of $33.68 per share. The Company received a $50 tax benefit from option exercises in 2016. UTMD repurchased 50,000 shares of stock in the open market at a cost of $2,850 during 2016, an average cost of $57.00 per share. In 2015, UTMD received $343 and issued 15,786 shares of stock upon the exercise of employee and director stock options. Employees and directors exercised a total of 21,800 option shares in 2015, with 6,014 shares immediately being retired as a result of optionees trading the shares in payment of the exercise price of the options and related taxes. Option exercises in 2015 were at an average price of $29.36 per share. The Company received a $114 tax benefit from option exercises in 2015. UTMD repurchased 13,000 shares of stock in the open market at a cost of $683 during 2015, an average cost of $52.54 per share. By comparison, in 2014, UTMD received $491 and issued 27,523 shares of stock upon the exercise of employee and director stock options. Employees and directors exercised a total of 35,503 option shares in 2014, with 7,980 shares immediately being retired as a result of optionees trading the shares in payment of the exercise price of the options. Option exercises in 2014 were at an average price of $26.08 per share. The Company received a $103 tax benefit from option exercises in 2014. The Company repurchased 22,207 shares of stock in the open market at a cost of $1,055 during 2014, an average cost of $47.49 per share.

UTMD did not borrow in any of the three years 2014-2016. Cash dividends paid were $3,916 in 2016, compared to $3,846 in 2015 and $3,765 in 2014.

Management believes that future income from operations and effective management of working capital will provide the liquidity needed to finance internal growth plans. In an uncertain economic environment, UTMD's cash balances allow management to operate with the long-term best interest of stockholders in mind. Planned 2017 capital expenditures for ongoing operations are expected to be less than depreciation of current PP&E.

Management plans to utilize cash not needed to support normal operations in one or a combination of the following: 1) in general, to continue to invest at an opportune time in ways that will enhance future profitability, for example, to fit-out the new UK facility 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.

Management's Outlook

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

The safety, reliability and performance of UTMD's medical devices are high and represent significant clinical benefits while providing minimum total cost of care. UTMD will continue to leverage its reputation as a device innovator which will responsively take on challenges to work with clinicians who use its specialty devices. In doing so, UTMD will continue to differentiate itself, especially from commodity-oriented competitors. In 2017, UTMD plans 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 stock price seems undervalued; and*
5) *be vigilant for accretive acquisition opportunities which may be increasingly brought about by difficult burdens on small, innovative companies.*

UTMD's balance sheet was strong enough in early 2011 to be able to finance a substantial acquisition which met UTMD's investment criteria without issuing stock. After five years of integration and consolidation, UTMD's balance sheet is once again strong enough to support a similar acquisition significantly accretive to financial performance and stockholder value.

The Company has a fundamental focus to do an excellent job in meeting clinicians' and patients' needs, while providing stockholders with excellent returns. In 2016, the value of UTMD's stock increased 24%, ending the year at $72.75/ share, a record high. This compares to a 2016 increase of 8% in the NASDAQ Composite Index, of 10% in the S&P 500 Index, and of 13% in the Dow Jones Industrial Average. Taking a longer term view, as of the end of 2016 from the end of 1998, the NASDAQ Composite Index was up 146%, the S&P 500 Index was up 82% and the DJIA was up 115%. In comparison, UTMD's share price increased 1009% over that same eighteen year time span (14% annually compounded share price increase per year). If additional returns to stockholders from cash dividends are added, stockholder value increased 1195% (15% per year). Combining share price appreciation as a result of a long term profitable financial performance and a capital allocation strategy that includes opportunistic share repurchases with steadily growing quarterly cash dividends paid to stockholders since 2004, longer term UTMD stockholders have experienced excellent returns. Management is committed to continue that performance.

Notes to Consolidated Financial Statements

(December 31, 2016, 2015 and 2014 — Currency amounts are in thousands except per share amounts, and where noted.)

Note 1. Summary of Significant Accounting Policies

Organization. Utah Medical Products, Inc. with headquarters in Midvale, Utah and its wholly-owned operating subsidiaries, Femcare Nikomed Ltd located in Romsey, Hampshire, England, Femcare Australia Pty Ltd located in Castle Hill, NSW, Australia, Utah Medical Products Canada, Inc. (dba Femcare Canada) located in Mississauga, Ontario, Canada and Utah Medical Products Ltd., which operates a manufacturing facility in Athlone, Ireland, (in the aggregate, the Company) are in the primary business of developing, manufacturing and globally distributing specialized medical devices for the healthcare industry. The Company's broad range of products includes those used in critical care areas and the labor and delivery departments of hospitals, as well as outpatient clinics and physicians' offices. Products are sold directly to end user facilities in the U.S., Ireland, UK, Canada, France and Australia, and through third party distributors in other OUS markets. Domestically, UTMD has an exclusive distribution relationship with CooperSurgical, Inc. for the Filshie Clip System. UTMD also sells subcontract manufactured components and finished products to over 130 companies in the U.S. for their medical and non-medical products.

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

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

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

Investments. The Company classifies its investments as "available-for-sale." Securities classified as "available-for-sale" are carried in the financial statements at fair value. Realized gains and losses, determined using the specific identification method, are included in operations; unrealized holding gains and losses are reported as a separate component of accumulated other comprehensive income. Declines in fair value below cost that are other than temporary are included in operations. As of December 31, 2016 the Company retained a freely tradeable investment in Citigroup (C) (see note 3).

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

The Company's customer base consists of hospitals, medical device distributors, physician practices and others directly related to healthcare providers, as well as other manufacturing companies. Although the Company is affected by the well-being of the global healthcare industry, management does not believe significant trade receivable credit risk exists at December 31, 2016 except under an extreme global financial crisis.

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

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

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

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

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

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

Intangible Assets. Costs associated with the acquisition of patents, trademarks, trade names, customer relationships, regulatory approvals & product certifications, license rights and non-compete agreements are capitalized, and are being amortized using the straight-line method over periods ranging from 5 to 20 years. UTMD's goodwill is tested for impairment annually, in the fourth quarter of each year, using a fair value measurement test, in accordance with ASC 350. UTMD also performs impairment tests contemporaneously, if circumstances change that would more than likely reduce the fair value of goodwill below its net book value. If UTMD determines that its goodwill is impaired, a second step is completed to measure the amount of the impairment loss. UTMD does not expect its goodwill to become impaired in the foreseeable future. Estimated future amortization expense on intangible assets currently held, using the 2016 year-end 1.2338 USD/GBP and .7231 USD/AUD currency exchange rates, is about $1,978 in 2017, $1,977 in 2018, and $1,975 in 2019, 2020 and 2021 (see note 2).

Revenue Recognition. The Company recognizes revenue at the time of shipment as title generally passes to the customer at the time of shipment. Revenue recognized by UTMD is based upon documented arrangements and fixed contracts in which the selling price is fixed prior to the Company's acceptance of an order.

Revenue from product and service sales is generally recognized at the time the product is shipped or service completed and invoiced, and collectibility is reasonably assured. There are circumstances under which revenue may be recognized when product is not shipped, which meet the criteria of SAB 104: the Company provides engineering services, for example, design and production of manufacturing tooling that may be used in subsequent UTMD manufacturing of custom components for other companies. This revenue is recognized when UTMD's service has been completed according to a fixed contractual agreement. UTMD includes handling fees charged to customers in revenues.

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

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction, in Utah, in the United Kingdom, in Australia, in Ireland and beginning for 2017, in Canada. UTMD is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2013.

The Company recognizes interest accrued related to unrecognized tax benefits in interest expenses and any related penalties in income taxes. The Company did not recognize any tax-related interest expense or have any tax penalties in any of the three years 2014 through 2016.

Legal Costs. The Company has been involved in lawsuits which are an expected consequence of its operations and in the ordinary course of business. The Company maintains a reserve for legal costs which are probable and estimated based on previous experience and known risk. The reserve for legal costs at December 31, 2016 and 2015 was $134 and $122, respectively (see note 2).

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

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

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

	2016	2015	2014
Weighted average number of shares outstanding – basic	3,751	3,752	3,747
Dilutive effect of stock options	15	20	27
Weighted average number of shares outstanding, assuming dilution	3,766	3,772	3,774

Presentation of Sales and Similar Taxes. Sales tax on revenue-producing transactions is recorded as a liability when the sale occurs. UTMD is not required to withhold sales tax on OUS sales, and at least 85% of domestic 2016 sales were to customers who are tax exempt or who are in jurisdictions where UTMD is not required to withhold sales tax.

Stock-Based Compensation. At December 31, 2016, the Company has stock-based employee compensation plans, which are described more fully in note 9. The Company accounts for stock compensation under ASC 718, Share-Based Payment. This statement requires the Company to recognize compensation cost based on the grant date fair value of options granted to employees and directors. In 2016, the Company recognized $92 in stock-based compensation cost compared to $87 in 2015 and $74 in 2014.

Translation of Foreign Currencies. Assets and liabilities of the Company's foreign subsidiaries are translated into U.S. dollars at the applicable exchange rates at year-end. Net gains or losses resulting from the translation of the Company's assets and liabilities are reflected as a separate component of stockholders' equity. A negative translation impact on stockholders' equity reflects a current relative U.S. Dollar value higher than at the point in time that assets were actually acquired in a foreign currency. A positive translation impact would result from a U.S. dollar weaker in value than at the point in time foreign assets were acquired. Year-end translation gains or losses of non-functional currency bank account balances, e.g. EUR and AUD balances held by the UK subsidiary, are recognized as non-operating income or expense, as applicable.

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

Note 2. Detail of Certain Balance Sheet Accounts

December 31,	2016	2015
Accounts and other receivables:		
Accounts receivable	$ 3,289	$ 3,750
Income tax receivable	7	901
Accrued interest and other	11	12
Less allowance for doubtful accounts	(96)	(100)
Total accounts and other receivables	$ 3,211	$ 4,563
Inventories:		
Finished products	$ 1,327	$ 1,715
Work-in-process	942	961
Raw materials	2,273	1,520
Total inventories	$ 4,542	$ 4,196
Other intangible assets:		
Patents	$ 2,161	$ 2,180
Non-compete agreements	123	147
Trademark & trade names	9,074	10,808
Customer relationships	8,822	10,556
Regulatory approvals & product certifications	11,767	14,081
Total other intangible assets	31,947	37,772
Accumulated amortization	(13,683)	(13,564)
Other intangible assets, net	$18,264	$24,208
Accrued expenses:		
Income taxes payable	$ 799	$ 1,632
Payroll and payroll taxes	1,117	1,053
Reserve for litigation costs	134	122
Other	66	610
Total accrued expenses	$ 2,116	$ 3,417

Notes to Consolidated Financial Statements *(continued)*

Note 3. Investments

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

December 31,	2016	2015
Investments, at cost	$ 42	$ 42
Equity securities:		
Unrealized holding gains	22	13
Unrealized holding (losses)	—	—
Investments, at fair value	$ 64	$ 55

During the three years 2014 through 2016, UTMD did not have any proceeds from sales of available-for-sale securities.

Note 4. Fair Value Measurements and Financial Instruments

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

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

Level 1 — Quoted market prices in active markets for identical assets or liabilities;

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

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

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

	Level 1		Levels 2 & 3		Total	
	2016	2015	2016	2015	2016	2015
Equities	$ 64	$ 55	—	—	$ 64	$ 55
Total	$ 64	$ 55	—	—	$ 64	$ 55

None of the Company's financial instruments, which are current assets and liabilities that could be readily traded, are held for trading purposes. Detail on investments is provided in note 3 above. The Company estimates that the fair value of all financial instruments at December 31, 2016 does not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying consolidated balance sheet.

Note 5. Property and Equipment

Property and equipment consists of the following:

December 31,	2016	2015
Land	$ 1,289	$ 1,299
Buildings and improvements	10,914	10,184
Furniture, equipment and tooling	15,759	15,566
Construction-in-progress	2,061	31
Total	30,023	27,080
Accumulated depreciation	(20,057)	(19,711)
Property and equipment, net	$ 9,966	$ 7,369

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

December 31, 2016	U.S & Canada	England & Australia	Ireland	Total
Land	$ 926	$ —	$ 362	$ 1,299
Buildings and improvements	6,523	523	3,869	10,914
Furniture, equipment and tooling	14,233	529	996	15,759
Construction-in-progress	—	2,057	4	2,061
Total	21,682	3,109	5,231	30,023
Accumulated depreciation	(17,063)	(376)	(2,617)	(20,057)
Property and equipment, net	$ 4,619	$ 2,733	$ 2,614	$ 9,996

December 31, 2015	U.S & Canada	England & Australia	Ireland	Total
Land	$ 926	$ —	$ 373	$ 1,299
Buildings and improvements	5,677	525	3,982	10,184
Furniture, equipment and tooling	14,010	604	952	15,566
Construction-in-progress	31	—	—	31
Total	20,644	1,129	5,307	27,080
Accumulated depreciation	(16,825)	(341)	(2,545)	(19,711)
Property and equipment, net	$ 3,819	$ 788	$ 2,762	$ 7,369

Note 6. Long-term Debt

In March 2011, the Company obtained a $14,000 loan from JPMorgan Chase Bank, N.A. and a $12,934 loan from JP Morgan Chase, London Branch to help finance UTMD's purchase of Femcare. The notes were fully paid off in February 2015.

Note 7. Commitments and Contingencies

Operating Leases. The Company has a lease agreement for land adjoining its Utah facility for a term of forty years commencing on September 1, 1991. On September 1, 2001 and subsequent to each fifth lease year, the basic rental was and will be adjusted for published changes in a price index. The Company currently leases its UK facility and an automobile for an employee in Ireland.

Rent expense charged to operations under these operating lease agreements was approximately $175, $184 and $225 for the years ended December 31, 2016, 2015 and 2014, respectively.

Future minimum lease payments under its lease obligations as of December 31, 2016 were as follows:

Years ending December 31:	Amount
2017	$ 160
2018	81
2019	45
2020	45
2021	45
Thereafter	442
Total future minimum lease payments	$ 818

Purchase Obligations. The Company has obligations to purchase raw materials for use in its manufacturing operations. The Company has the right to make changes in, among other things, purchase quantities, delivery schedules and order acceptance.

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

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

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

UTMD maintains a warranty reserve to provide for estimated costs which are likely to occur. The amount of this reserve is adjusted, as required, to reflect its actual experience. Based on its analysis of historical warranty claims and its estimate that existing warranty obligations are immaterial, no warranty reserve was made at December 31, 2016 or December 31, 2015.

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

Note 8. Income Taxes

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

	December 31,			
	2016		2015	
	Current	Long-term	Current	Long-term
Inventory write-downs and differences due to UNICAP	$ 98	$ —	$ 78	$ —
Allowance for doubtful accounts	25	—	26	—
Accrued liabilities and reserves	147	—	121	—
Other – foreign	18	(41)	30	(49)
Depreciation and amortization	—	(4,277)	—	(5,412)
Unrealized investment gains	105	—	108	—
Deferred income taxes, net	$ 393	$ (4,318)	$ 363	$ (5,461)

The components of income tax expense are as follows:

Years ended December 31,	2016	2015	2014
Current	$ 5,467	$ 4,877	$ 5,288
Deferred	(1,173)	(1,175)	(854)
Total	$ 4,294	$ 3,702	$ 4,434

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

Years ended December 31,	2016	2015	2014
Federal income tax expense at the statutory rate	$ 2,998	$ 2,704	$ 2,632
State income taxes	291	262	255
Foreign income taxes (blended rate)	1,270	990	1,770
ETI, manufacturing deduction and tax credits	(287)	(257)	(244)
Other	22	3	21
Total	$ 4,294	$ 3,702	$ 4,434

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

Years ended December 31,	2016	2015	2014
Domestic	$ 8,688	$ 7,973	$ 7,717
Foreign	7,734	7,572	8,095
Total	$16,422	$15,545	$15,812

Note 9. Options

The Company has stock option plans which authorize the grant of stock options to eligible employees, directors and other individuals to purchase up to an aggregate of 266 thousand shares of common stock, of which 75 thousand are outstanding as of December 31, 2016. All options granted under the plans are granted at current market value at the date of grant, and may be exercised between six months and ten years following the date of grant. The plans are intended to advance the interest of the Company by attracting and ensuring retention of competent directors, employees and executive personnel, and to provide incentives to those individuals to devote their utmost efforts to the advancement of stockholder value. Changes in stock options were as follows:

	Shares (000's)	Price Range Per Share
2016		
Granted	28	$ 58.50 – $ 58.50
Expired or canceled	3	49.18 – 49.18
Exercised	13	24.00 – 49.18
Total outstanding at December 31	75	24.00 – 58.50
Total exercisable at December 31	36	24.00 – 50.72
2015		
Granted	—	$ — $ —
Expired or canceled	7	26.58 – 49.18
Exercised	22	21.68 – 49.18
Total outstanding at December 31	62	24.00 – 50.72
Total exercisable at December 31	41	24.00 – 50.72
2014		
Granted	39	$ 49.18 – $ 50.72
Expired or canceled	4	25.59 – 49.18
Exercised	35	18.00 – 33.30
Total outstanding at December 31	91	21.68 – 50.72
Total exercisable at December 31	48	21.68 – 33.30

For the years ended December 31, 2016, 2015 and 2014, the Company reduced current income taxes payable and increased additional paid-in capital by $50, $114 and $103, respectively, for the income tax benefit attributable to sale by optionees of common stock received upon the exercise of stock options.

Stock-Based Compensation. In 2016, the Company recognized $92 in equity compensation cost, compared to $87 in 2015 and $74 in 2014.

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

Years ended December 31,	2016	2015	2014
Expected dividend amount per quarter	$ .2775	$ —	$ .2624
Expected stock price volatility	28.0%		27.0%
Risk-free interest rate	1.30%		1.50%
Expected life of options	4.7 years		4.7 years

The per share weighted average fair value of options granted during 2016 is $12.15 and in 2014 is $9.64. No options were granted in 2015.

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

The following table summarizes information about stock options outstanding at December 31, 2016:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$24.00 – 33.30	20,936	3.40	$27.50	20,936	$27.50
49.18 – 58.50	53,736	8.66	54.07	15,359	49.24
$24.00 – 58.50	74,672	7.18	$46.62	36,295	$36.70

Note 10. Geographic Sales Information

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

	2016	2015	2014
United States	$19,488	$20,364	$19,483
Europe	7,989	7,720	8,939
Other	11,821	12,073	12,856

Note 11. Long-lived Assets by Geographic Area

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

	2016	2015	2014
United States	$11,151	$11,097	$11,349
England	26,710	31,901	36,199
Ireland	2,614	2,761	3,222
Australia	513	543	631
Canada	729	—	—

Note 12. Revenues by Product Category

The Company had revenues in the following product categories:

Product Category	2016	2015	2014
Obstetrics	$ 4,532	$ 4,587	$ 4,669
Gynecology/Electrosurgery/Urology	20,683	22,356	24,088
Neonatal	6,007	6,299	6,222
Blood Pressure Monitoring and Accessories	8,076	6,915	6,299

Note 13. Product Sale and Purchase Commitments

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

In 2016, 2015 and 2014, UTMD received royalties of $91, $93 and $99, respectively, for the use of intellectual property of Filshie Clip System as part of Femcare's exclusive U.S. distribution agreement with CooperSurgical Inc.

UTMD had $2,524 in operating lease and purrchase commitments as of December 31, 2016.

Note 14. Employee Benefit Plan

The Company sponsors a contributory 401(k) savings plan for U.S. employees, and contributory retirement plans for Ireland, UK, Australia and Canada employees. The Company's matching contribution is determined annually by the board of directors. Company contributions were approximately $151, $161 and $165 for the years ended December 31, 2016, 2015 and 2014, respectively.

Note 15. Recent Accounting Pronouncements

In March 2016, new accounting guidance was issued to simplify several aspects of accounting for employee share-based payment (including stock option) transactions, including the accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as classification in the statement of cash flows. Under the guidance, entities recognize all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement. This guidance becomes effective for fiscal years and interim periods beginning after December 15, 2016 and early adoption is permitted. UTMD believes that the 2017 adoption of this standard will have an insignificant impact on its consolidated financial statements.

In May 2014, new accounting guidance 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. Entities have the option of using either a full retrospective or a modified retrospective approach for the adoption of the new standard. This guidance becomes effective for annual reporting periods beginning after December 15, 2017 and early adoption is permitted for periods beginning after December 15, 2016. Because the vast majority of its revenue is recognized when a physical product is shipped, UTMD expects that the 2018 adoption of this standard will have an insignificant impact on its consolidated financial statements.

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 (See Note 7).

Note 16. Subsequent Events

The Company evaluated its December 31, 2016 financial statements for subsequent events through the date the financial statements were issued. The Company is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

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.

RISK FACTORS

Legislative healthcare reform in the United States, as embodied in The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (the "Acts") 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 2016-2017. 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. The rapid increase in UTMD's employee healthcare plan costs, for example, may cause the Company to have to reduce coverages which in turn represents a risk to retaining key employees.

Fluctuations in foreign currencies relative to the U.S. Dollar (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 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 maybe reduced because finished distributed products and/or U.S. made raw materials and components are likely being purchased in fixed USD.

Management's Report
On Internal Control Over Financial Reporting

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

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

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

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2016. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework (1992)*.

Based on its assessment and those criteria, management believes that the Company maintained effective internal control over financial reporting as of December 31, 2016.

The Company's independent registered public accounting firm, Jones Simkins LLC, has audited the Company's internal control over financial reporting as of December 31, 2016, and its report is shown on the next page.

Kevin L. Cornwell
Chief Executive Officer

Paul O. Richins
Principal Financial Officer

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Utah Medical Products, Inc. as of December 31, 2016 and 2015, and the related consolidated statements of income and comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2016. We also have audited Utah Medical Products, Inc.'s internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Utah Medical Products, Inc.'s management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the company's internal control over financial reporting based on our audits. We did not audit portions of the financial statements and we did not examine the effectiveness of internal control over financial reporting for portions of Femcare Group Limited, a wholly owned subsidiary. The portions not audited by us include assets of $19,412,000 and $16,133,000 as of December 31, 2016 and 2015, respectively, and total revenues of $10,214,000, $12,548,000, and $16,367,000, respectively for each of the years in the three-year period ended December 31, 2016. Those portions of the statements and the effectiveness of internal control over financial reporting were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for Femcare Group Limited and the effectiveness of Femcare Group Limited's internal control over financial reporting is based solely on the reports of the other auditors.

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

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

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

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Utah Medical Products, Inc. as of December 31, 2016 and 2015, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2016 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, based on our audit and the report of the other auditors, Utah Medical Products, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Jones Simkins LLC

Jones Simkins LLC

Logan, Utah
March 6, 2017

CORPORATE INFORMATION

Board of Directors

Kevin L. Cornwell
Chairman and CEO

James H. Beeson, Ph.D., M.D., FACOG
Maternal-Fetal Medicine Physician
Memorial Hermann SE Hospital, Texas

Ernst G. Hoyer
Retired, General Manager
Petersen Precision Engineering Co.

Barbara A. Payne, Ph.D.
Retired Consultant

Paul O. Richins
Principal Financial Officer

Officers

Kevin L. Cornwell
President and Secretary

Marcena H. Clawson
Vice President, Corporate Sales

Paul O. Richins
Chief Administrative Officer

Ben D. Shirley
Vice President,
Product Development and Quality Assurance

The Company has a Code of Ethics for applicable executive officers and outside directors and a Code of Conduct which applies to all employees. Both are available at *www.utahmed.com*.

Investor Information

Corporate Headquarters
Utah Medical Products, Inc.
7043 South 300 West
Midvale, Utah 84047

Foreign Operations
Utah Medical Products Ltd.
Athlone Business & Technology Park
Dublin Road
Athlone, County Westmeath, N37 XK74, Ireland

Femcare Nikomed Limited
Stuart Court, Spursholt Place, Salisbury Road
Romsey, Hampshire SO51 6DJ
United Kingom

Femcare Australia Pty Ltd
Unit 12, 5 Gladstone Rd
Castle Hill, NSW 2154
Australia

Femcare Canada
6355 Kennedy Road #15
Mississauga, ON L5T 2L5
Canada

Transfer Agent
Computershare
250 Royall Street
Canton, Mass 02021

Financial Auditors
Jones Simkins LLC
Logan, Utah

Corporate Counsel
Kruse Landa Maycock & Ricks, LLC
Salt Lake City, Utah

CORPORATE STOCK

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

UTMD™ NASDAQ LISTED

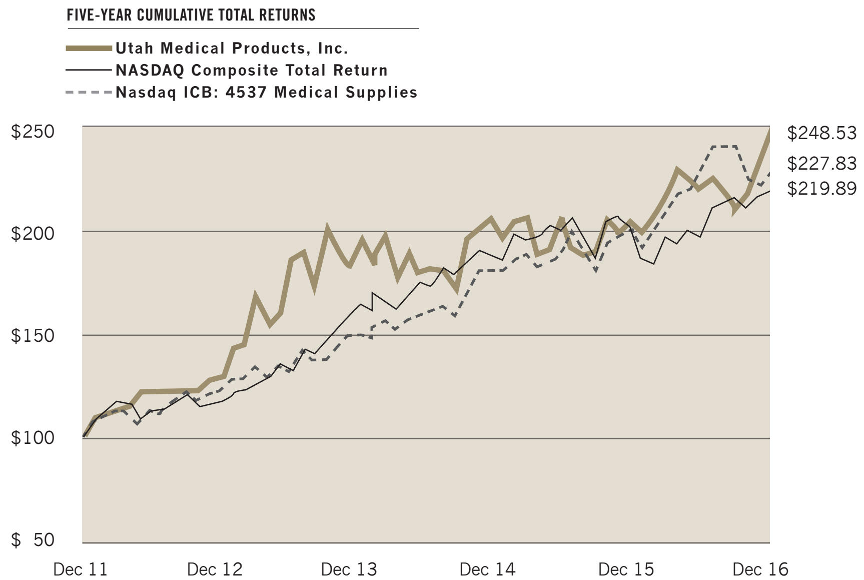
	2016		2015	
	High	Low	High	Low
1st Quarter	$63.61	$54.20	$63.98	$54.15
2nd Quarter	68.90	61.00	61.19	51.69
3rd Quarter	68.53	57.21	61.48	50.00
4th Quarter	75.00	56.30	61.20	52.42

For stockholder information contact: Paul Richins, (801) 566-1200.
Website: *www.utahmed.com,* e-mail: *info@utahmed.com*

STOCK PERFORMANCE CHART

The following chart compares what an investor's five-year cumulative total return (assuming reinvestment of dividends) would have been assuming initial $100 investments on December 31, 2011, for the Company's Common Stock and the two indicated indices. The Company's Common Stock trades on the Nasdaq Global Market.

Cumulative shareholder return data respecting the Nasdaq Composite Total Return are included as the comparable broad market index. The peer group index, ICB: 4537 Medical Supplies, is comprised of Nasdaq Stocks in the Medical Supplies subsector of medical device industry stocks traded on Nasdaq, of which UTMD belongs.



December 31	2011	2012	2013	2014	2015	2016
Utah Medical Products, Inc.	100.0	129.3	193.9	205.3	203.9	248.5
NASDAQ Composite Total Return	100.0	117.5	164.6	188.8	202.0	219.9
Nasdaq ICB: 4537 Medical Supplies	100.0	123.1	150.7	181.0	200.2	227.8

Utah Medical Products, Inc.

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www.utahmed.com | e-mail: info@utahmed.com

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