

THERAVANCE INC
Form 10-Q
November 06, 2006

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2006

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number:
0-30319

THERAVANCE, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or
Organization)

94-3265960
(I.R.S. Employer
Identification No.)

**901 Gateway Boulevard
South San Francisco, CA 94080**

(Address of Principal Executive Offices including Zip Code)

(650) 808-6000

(Registrant's Telephone Number, Including Area Code)

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

Yes No

Edgar Filing: THERAVANCE INC - Form 10-Q

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one)

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

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

Yes No

The number of shares of registrant's common stock outstanding on November 1, 2006 was 50,636,432.

The number of shares of registrant's Class A common stock outstanding on November 1, 2006 was 9,401,498.

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

<u>Item 1. Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets as of September 30, 2006 (unaudited) and December 31, 2005</u>	3
<u>Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2006 and 2005 (unaudited)</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2006 and 2005 (unaudited)</u>	5
<u>Notes to Condensed Unaudited Consolidated Financial Statements</u>	6
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	16
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	24
<u>Item 4. Controls and Procedures</u>	24
<u>PART II. OTHER INFORMATION</u>	25
<u>Item 1A. Risk Factors</u>	25
<u>Item 6. Exhibits</u>	38
<u>Signatures</u>	39
<u>Exhibit Index</u>	40

PART I FINANCIAL INFORMATION

ITEM 1. Financial Statements

THERAVANCE, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

	September 30, 2006 (Unaudited)	December 31, 2005 *
Assets		
Current assets:		
Cash and cash equivalents	\$ 85,730	\$ 49,787
Marketable securities	137,525	112,138
Receivable from related party	272	990
Prepaid and other current assets	3,858	3,903
Total current assets	227,385	166,818
Marketable securities	43,800	38,084
Restricted cash and cash equivalents	3,860	3,860
Property and equipment, net	14,281	13,180
Deferred sublease costs		297
Notes receivable	2,924	2,496
Other assets	100	100
Total assets	\$ 292,350	\$ 224,835
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	\$ 8,075	\$ 8,118
Accrued personnel-related expenses	6,562	6,041
Accrued clinical and development expenses	15,593	13,779
Other accrued liabilities	2,000	1,997
Current portion of notes payable	75	75
Current portion of capital lease obligations	464	1,169
Current portion of deferred revenue	22,032	16,994
Total current liabilities	54,801	48,173
Deferred rent	2,572	2,538
Notes payable	570	631
Deferred revenue	136,555	111,251
Other long term liabilities	3,818	2,658
Commitments and contingencies		
Stockholders equity:		
Preferred stock, \$0.01 par value; 230 shares authorized, no shares issued and outstanding		
Common stock, \$0.01 par value; 200,000 shares authorized; 50,565 and 44,475 shares issued and outstanding at September 30, 2006 and December 31, 2005, respectively	505	444
Class A Common Stock, \$0.01 par value; 30,000 shares authorized, 9,402 issued and outstanding at September 30, 2006 and December 31, 2005, respectively	94	94
Additional paid-in capital	833,452	676,299
Notes receivable from stockholders	(5) (17
Deferred stock-based compensation) (4,965
Accumulated other comprehensive loss	(37) (503
Accumulated deficit	(739,975) (611,768
Total stockholders equity	94,034	59,584
Total liabilities and stockholders equity	\$ 292,350	\$ 224,835

*Condensed consolidated balance sheet at December 31, 2005 has been derived from audited financial statements.

Edgar Filing: THERAVANCE INC - Form 10-Q

See accompanying notes to condensed consolidated financial statements.

THERAVANCE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(Unaudited)

	Three Months Ended September 30, 2006		Nine Months Ended September 30, 2006	
	2005	2005	2005	2005
Revenue (1)	\$ 5,524	\$ 3,006	\$ 14,657	\$ 8,676
Operating expenses:				
Research and development (2)	39,103	37,034	128,562	96,120
General and administrative (2)	19,838		0.5 %	
Paul O. Richins(2)(3)	Direct	24,254	0.7 %	
	Options	62	0.0 %	
	Total	24,316	0.7 %	
James H. Beeson (2)(4)	Direct	13,125	0.4 %	
Brian L. Koopman	Direct	907	0.0 %	
	Options	2,348	0.1 %	
	Total	3,255	0.1 %	
All executive officers and directors as a group (5 persons)	Direct	271,116	7.3 %	
	Options	2,410	0.1 %	
	Total	273,526	7.3 %	

(1) Executive Committee member

(2) Audit Committee member

(3) Governance and Nominating Committee member

(4) Compensation and Benefits Committee member

In the previous table, shares owned directly by directors and executive officers are owned beneficially and of record, and such record stockholder has sole voting, investment and dispositive power. Calculations of percentage of shares outstanding assumes the exercise of options to which the percentage relates. Percentages calculated for totals assume the exercise of options comprising such totals.

Section 16(a) Beneficial Ownership Reporting Requirements

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's directors and executive officers, and persons who own more than 10% of a registered class of the Company's equity securities, to file with the Securities and Exchange Commission initial reports of ownership and reports of changes in ownership of equity securities of the Company. Officers, directors and greater than 10% stockholders are required to furnish the Company with copies of all Section 16(a) forms they file.

To the Company's knowledge, based solely on review of the copies of such reports furnished to the Company, all Section 16(a) requirements applicable to persons who were officers, directors and greater than 10% stockholders during the preceding fiscal year were complied with.

EXECUTIVE OFFICER COMPENSATION

The following table sets forth, for the last three fiscal years, compensation received by the Company's Chief Executive Officer and Principal Financial Officer. There are no other named executive officers.

2018 Summary Compensation Table

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Option Awards (\$)	Non-equity Incentive Plan Compensation (\$)	All Other Compensation (\$)	Total Compensation (\$)
Kevin L. Cornwell Chairman & CEO	2018	156,000	--	--	338,100	7,200	501,300
	2017	156,000	--	--	338,100	7,080	501,180
	2016	156,000	--	--	282,450	7,460	445,910
Paul O. Richins VP & Principal Financial Officer	2018	39,827	--	--	--	1,702	41,529
	2017	118,507	--	--	24,292	3,931	146,730
	2016	116,678	--	--	20,293	3,876	140,847
Brian L. Koopman Principal Financial Officer	2018	103,141	--	--	13,814	3,388	120,343

Narrative disclosure to the Summary Compensation Table:

1. Mr. Richins retired from employment on April 2, 2018. The Board of Directors appointed Brian Koopman, who served as UTMD's Controller since 2006, to replace Mr. Richins as UTMD's Principal Financial Officer.

2. Amounts included in All Other Compensation represent the aggregate total of Company 401(k) matching contributions, Company Section 125 matching contributions, and reimbursements under UTMD's pet insurance plan to each named executive officer, all of which are benefits available to regular full-time employees. During 2020, each named executive officer will be eligible to receive payment of eligible medical expenses under the employee Health Plan, up to \$6,600 in 401(k) matching contributions, up to \$500 in pet health cost reimbursements and up to \$600 in matching Section 125 matching contributions.

3. Medical, dental and vision expenses paid under the Company's Health Plan, which are available to regular full-time employees, are not included in the above table.

Non-equity Incentive Plan Compensation amounts, as described in more detail starting on page 10 under Bonuses 4. were paid in early February of the applicable following calendar year, representing Management Bonuses earned during the fiscal year reported.

2018 Grants of Equity Incentive Plan-Based Awards

Mr. Koopman received a 2018 stock option award for 1,600 shares. No other awards were made in 2018 to the named executive officers listed in the Summary Compensation Table. The Company's only equity incentive plan is its 2013 Employees' and Directors' Incentive Plan, under which a total of 22,400 option awards were issued in 2018 to 45 employees.

2018 Grants of Non-Equity Incentive Plan-Based Awards

Named Executive Officers participated in the Profit-Sharing Management Bonus (MB) Plan, generally available to all exempt, as well as key nonexempt, employees. The structure of the performance-based MB Plan is described in the following Compensation Discussion and Analysis. The 2018 awards under the MB Plan to the named executive officers were recommended by the Compensation and Benefits Committee in early 2019, after the independent audit of financial results had been concluded. The awards were subsequently approved by the Board of Directors. The structure of the MB Plan remains the same for 2019.

Additional disclosure regarding executive and employee compensation

The Compensation and Benefits Committee establishes the criteria, and directs the implementation, of all compensation program elements for the CEO. The CEO's base salary is set early in each calendar year by the Board of Directors after review of the recommendation of the Compensation and Benefits Committee. Mr. Cornwell's base salary in 2019 will be \$156,000, the same as in 2018 and 2017. The annual MB paid to Mr. Cornwell in early 2019 for 2018 performance represented 67% of his total 2018 compensation. Mr. Cornwell's 2018 MB was the same as in 2017. In 2018, the Company's consolidated EBT prior to accrual of the annual MB was up 2%. The MB, based by formula on 5% of the Company's EBT plus a 10% kicker for growth in EBT, was the same in 2018 as in 2017 for participants who had met their objectives for the year. As in prior years, Mr. Cornwell's MB was consistent with other participants in the MB Plan.

For all other employees, in collaboration with the other executive officer(s), the CEO develops compensation policies, plans and programs that are intended to meet the objectives of the Company's overall compensation program. The Compensation and Benefits Committee annually reviews and approves the elements of the compensation program recommended by the CEO. In addition, the committee periodically reviews any proposed changes within a calendar year. The compensation of employees other than the CEO, including other named executive officer(s), is administered by the CEO under the review and ratification of the Compensation and Benefits Committee comprised of all the independent directors. All UTMD employees, including employees of its subsidiaries, received profit-sharing bonuses for 2018 performance.

Employment Agreements, Termination of Employment, and Change in Control.

Except for Mr. Cornwell, the Company has no employment agreements in the United States. In Ireland and Canada, UTMD is subject to providing certain statutory advance notice and severance benefits to its employees in the event of redundancy termination. In the United Kingdom (UK) and Australia (AUS), Femcare has employment agreements with each of its employees that typically include a three month termination notice or pay in lieu of notice.

In May 1998, the Company entered into an agreement with the CEO to provide a long term incentive to increase stockholder value. The Company is required to pay Mr. Cornwell additional compensation in the event his employment is terminated as a result of a change in control at the election of the Company or by the mutual agreement of Mr. Cornwell and the Company. Under the agreement, the additional compensation that the Company is required to pay Mr. Cornwell is equal to his last three years' salary and bonuses. Based on actual salary plus bonuses for the three years of 2016-2018, the additional compensation would be \$1,426,650.

In the event of a change in control, the Company will also pay Mr. Cornwell incentive compensation under the agreement equal to about 2% of the enterprise value paid by an acquiring entity that exceeds \$14.00 per share. For example, at the \$83.08 per share closing price at the end of 2018, the amount of incentive compensation in the event of an acquisition of UTMD would be \$5,181,000. At the time of the execution of the agreement, the value per UTMD share was \$7.75.

Except for statutory notice, or payment in lieu provisions in UK employee contracts, UTMD's CEO is the only employee with a formal termination benefit agreement, which was last modified in 1998. The Board of Directors does not anticipate the need for any other agreements for the indefinite future. In the absence of any practical requirement, UTMD has no general policies regarding termination benefits.

The Company is also required to pay all optionees under employee and outside director's option plans, the appreciation of stock value for awarded options above the option exercise price ("in the money") in the event of a change of control

of the Company. The number of options outstanding as of December 31, 2018, was 61,018 at an average exercise price of \$56.78/ share. At the year-end 2018 per share closing price of \$83.08, the amount of change of control pay due all optionees would be \$1,604,651.

6

Outstanding Equity Awards at 2018 Fiscal Year End

Named Executive Officer	Option Awards Number of Securities Underlying Unexercised Options (#)		Number of Securities Underlying Exercisable Options (#)		Option Exercise Price (\$)	Option Expiration Date
	Exercised	Subexercisable	Subexercisable	Exercisable		
Brian L. Koopman	62	0	250	437	49.18	5/8/2024
			0	1600	58.50	11/8/2026
					74.64	12/24/2028

The Company has no outstanding Stock Awards.
2018 Option Exercises and Stock Vested

Mr. Richins exercised 938 option shares in 2018, with 501 shares immediately being retired as a result of trading the shares in payment of the exercise price of the options. Mr. Koopman exercised 438 option shares in 2018, with 246 shares immediately being retired as a result of trading the shares in payment of the exercise price of the options. The Company has made no Stock Awards.

2018 Pension Benefits

The Company does not provide a defined benefit pension plan to any employee.

2018 Nonqualified Deferred Compensation

The Company does not provide nonqualified deferred compensation to any employee.

2018 Outside Director Compensation

Name	Fees Earned or Paid in Cash				All Other Compensation (\$)	Total (\$)
	(\$)	Stock Awards (\$)	Option Awards (\$)	(\$)		
James Beeson	25,000	--	--	--	--	25,000
Ernst Hoyer	32,000	--	--	--	--	32,000
Barbara Payne	25,000	--	--	--	--	25,000
Paul Richins	18,750	--	--	--	--	18,750

Directors of UTMD and/or its corporate subsidiaries who are also employees do not receive a separate director's fee.

Narrative disclosure to the Outside Director Compensation Table:

1. Mr. Hoyer received \$4,000 for participating as a member of the Executive Committee, \$3,000 as Chairman of the Audit Committee and \$25,000 as the base annual outside director's fee.
2. Dr. Beeson received the \$25,000 base annual outside director's fee.
3. Dr. Payne received the \$25,000 base annual outside director's fee.
4. After termination of employment, Mr. Richins received 75% of the annual base outside director's fee for service as an outside director following his retirement.

At the 2003 Annual Meeting, stockholders approved the 2003 Employees' and Directors' Incentive Plan, under which up to 1.2 million shares could have been granted over the ten-year life of the plan. The Board of Directors did not approve an award of outside director options in the three preceding years 2000-2002, or in the ensuing years of 2004-2017, except for a 10,000 share award to Dr. Beeson upon joining the board in 2007 and an ensuing 10,000 share award to Dr. Beeson in 2008. The 2003 Plan expired in February 2013.

At the 2013 Annual Meeting, stockholders approved the 2013 Employees' and Directors' Incentive Plan, under which up to 600,000 shares may be granted over the ten-year life of the plan.

At December 31, 2018, sixty-two unexercised outside director options were outstanding.

8

CEO PAY RATIO DISCLOSURE

The median annual total compensation of all employees of the Company in 2018, other than Mr. Cornwell, was \$33,790. Mr. Cornwell's total annual compensation in 2018 was \$501,300. The ratio of these two amounts is 1:15.

To identify the median employee, UTMD compared annual pay, as of December 31, 2018, for all of its employees excluding the CEO, wherever they reside in the world. In addition to the United States, the Company has employees in the United Kingdom, Ireland, Australia and Canada. Employee pay rates in foreign currencies were converted to U.S. Dollars using exchange rates on December 31, 2018. The median annual pay was identified and that employee's total annual compensation in 2018 was subsequently calculated using the same methodology as that used for calculating Mr. Cornwell's compensation as shown in the 2018 Summary Compensation table.

DISCLOSURE RESPECTING THE COMPANY'S EQUITY COMPENSATION PLANS

The following table summarizes, as of the end of the most recent fiscal year, compensation plans, including individual compensation arrangements, under which equity securities of the Company are authorized for issuance, aggregated for all compensation plans previously approved by stockholders and for all plans not previously approved by stockholders:

Plan Category	Number of Securities To Be Issued upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	61,018	\$ 56.78	530,600
Equity compensation plans not approved by security holders	-	(Not applicable)	-
Total	61,018	\$ 56.78	530,600

Additional disclosure regarding dilution from equity awards:

In 2003 and 2013, stockholders approved incentive stock option plans for employees and directors summarized in the table above. The Company currently has no other equity award programs. The dilutive impact to stockholders of stock option awards is provided in the tables below:

	2016	2017	2018
Option shares available for award per stockholder approved option plans (beginning of year)	216,800	241,300	303,000
Option shares allocated by the Board of Directors	40,000	40,000	40,000

Edgar Filing: THERAVANCE INC - Form 10-Q

Total option shares awarded		28,000	0	22,400
	2016	2017	2018	
Total unexercised awarded option shares (end of year)	74,672	54,340	61,018	
Weighted-average unexercised option exercise price	\$46.62	\$45.50	\$56.78	
Closing market price of UTMD stock per share (end of year)	\$72.75	\$81.40	\$83.08	
(A) Dilution from options (shares)	14,634	19,430	18,344	
(B) Weighted average shares outstanding	3,751,395	3,717,492	3,730,303	
Total diluted shares outstanding (A+B), used for EPS calculation	3,766,029	3,736,922	3,748,647	

9

COMPENSATION DISCUSSION AND ANALYSIS

General

Under the supervision of the Compensation and Benefits Committee, UTMD has developed and implemented compensation policies, plans and programs that seek to enhance the long-term profitability, EPS growth and return on stockholders' equity (ROE) of the Company, and thus stockholder value, by aligning closely the financial interests of the Company's senior management and other key employees with those of its stockholders. The long term key financial performance objectives are a 15% annually compounded rate of increase in EPS and an average ROE prior to payment of cash dividends greater than 20%. The Company has actually achieved a 15% annually compounded rate of increase in EPS and an average of 28% ROE (prior to payment of stockholder dividends) over the thirty-two years since 1986, its first year of profitability since becoming a publicly-traded company.

At the beginning of each year, the Board of Directors approves an operating plan which sets the standards for the Company's financial and nonfinancial performance. The performance each year may vary according to global economic conditions, competitive environment, life cycle of products, new product development, manufacturing costs and other factors. The Compensation and Benefits Committee then approves compensation criteria set in relation to the Company's annual operating plan which includes numerous income statement, balance sheet and cash flow measures, in addition to nonfinancial objectives established for each employee participating in the annual MB program.

The Company applies a consistent philosophy to compensation for all employees, including senior management. The philosophy is based on the premise that the achievements of the Company result from the coordinated efforts of all individual employees working toward common objectives. The Company strives to achieve those objectives through teamwork that is focused on meeting the needs and expectations of customers and stockholders.

The Company believes that its compensation policies, in particular its profit-sharing MB program and employee stock option awards, align key employee compensation with stockholder interest in creating longer term stockholder value and consistent profitability. There are no compensation programs or policies that create risks that are reasonably likely to have a material adverse effect on the Company.

There are seven basic objectives for the Company's compensation program:

- (1) Pay for Performance. The basic philosophy is that rewards are provided for the long-term value of individual contribution and performance to the Company. Rewards are both recurring (e.g., base salary) and non-recurring (e.g., bonuses), and both financial and non-financial (e.g., recognition and time off).
- (2) Provide for Fairness and Consistency in the Administration of Pay. Compensation is based on the value of the job, what each individual brings to the job, and how well each individual performs on the job, consistently applied across all functions and subsidiaries of the Company.
- (3) Pay Competitively. The Company believes it needs to attract and retain the best people in the industry in order to achieve one of the best performance records in the industry. In doing so, the Company needs to be perceived as rewarding well, where competitive compensation includes the total package of base pay, bonuses, awards and other benefits.
- (4) Conduct an Effective Performance Review Process. The Company believes it needs to encourage individual employee growth and candidly review each individual's performance in a timely way. This feedback process is bilateral, providing management with an evaluation of the Company through the eyes of its employees.

(5) Effectively Plan and Administer the Compensation Program. Expenditures for employee compensation must be managed to what the Company can afford and in a way that meets management goals for overall performance and return on stockholder equity.

(6) Communicate Effectively. The Company believes that an effective communication process must be employed to assure that its employees understand how compensation objectives are being administered and met.

(7) Meet All Legal Requirements. The compensation program must conform to all statutory employment laws and rules.

The Company uses essentially five vehicles in its compensation program.

(1) Salary. UTMD sets base salaries by reviewing the aggregate of base salary and annual MB for competitive positions in the market. The CEO's base salary is set early in each calendar year by the Board of Directors. Because UTMD is a small company where responsibilities are fluid and cross functional lines, there may not be a one for one comparison with other companies' job positions. Based on the knowledge and experience of members of senior management and the Compensation and Benefits Committee, base salaries are fixed at levels somewhat below the competitive amounts paid to management with comparable qualifications, experience and responsibilities at other similarly profitable companies engaged in the same or similar businesses. Then, annual bonuses and longer term incentive compensation are more highly leveraged and tied closely to the Company's success in achieving significant financial and non-financial goals.

(2) Bonuses. UTMD's Profit-Sharing Management Bonus (MB) Plan, which funds annual management bonuses, along with other contemporaneous incentives during the year, is generated out of a pretax/prebonus profit-sharing pool accrued throughout the year, and finalized, where the annual MB portion is concerned, after the year-end independent financial audit has been completed. Prior to 2006, the Board of Directors had approved an accrual guideline of 4% of pretax, prebonus earnings, plus 10% of pretax, prebonus earnings improvements over the prior year's results, as an allocation for the plan. For example, if the Company achieved 20% growth in pretax/prebonus accrual earnings, the MB Plan would accrue 6% of pretax, prebonus earnings during the applicable year into a "pool." The pool would then be distributed after the completed independent audit after recommendation of the Compensation and Benefits Committee and approval by the Board. Beginning in 2006, although the mechanism for the MB Plan remains unchanged, in order to compensate for the decrease in the number of option shares granted key employees (as the result of the requirement to expense the estimated "value" of options), the Board of Directors increased the base percent of the annual Management Bonus accrual formula from 4% to 5% of pretax/prebonus profits, and, except for the CEO, added an additional bonus inflating factor ranging from 7-15%.

UTMD's management personnel, beginning with the first level of supervision and professional management, and including certain non-management specialists and technical people, together with all direct sales representatives, are eligible participants in the MB Plan. At the beginning of the year, plan participants were generally awarded participation units in the bonus plan, proportional to base salary and responsibility, based on senior management's determination of the relative contribution expected from each person toward attaining Company goals. Each individual's performance objectives, derived as the applicable contribution needed from that key employee to achieve the Company's overall business plan for the year, are available for review as needed by the Committee. As part of the planning process, each eligible employee develops a set of measurable and dated objectives for the ensuing year. Achieving the Company's plan sets an expected value per bonus unit. After the end of the year, each individual participant's contribution to the Company's performance is assessed by senior management in order to determine an additional allocation of units for individual contributions, with the accomplishment of the beginning of year objectives as a key component. Because of the Company's excellent performance in 2018, all employees of the Company participated in the distribution of a \$671,000 annual MB Plan payout, not including payroll taxes. The MB Plan also funded \$44,000 in payroll taxes resulting from bonuses, \$8,000 in extraordinary bonuses paid contemporaneously to non-executive employees during the year, \$12,700 in non-exempt employee attendance bonuses, \$500 for special education programs and \$30,000 to help subsidize the cost of the U.S. employee medical plan.

The Company makes occasional cash awards, in amounts determined on an individual basis, to employees who make extraordinary contributions to the performance of the Company at any time during the year. These contemporaneous payments are made as frequently as possible to recognize excellent accomplishments when they occur. The awards are funded from the accrued MB plan described above, and therefore do not otherwise impact the Company's financial performance. Senior management is not eligible for these awards.

(3) Employee Stock Options. The Compensation and Benefits Committee believes that its awards of stock options have successfully focused the Company's management personnel on building profitability and stockholder value. The Board of Directors considers this policy highly contributory to growth in future stockholder value. The number of options awarded in 2018 reflects the judgment of the Board of the number of options sufficient to constitute a material, recognizable benefit to recipients. No explicit formula criteria are utilized, other than minimizing dilution to stockholder interests and the impact on earnings per share for option expense. When taken together with the share repurchase program, the net result of the option program over the last twenty-five years has been awarding option shares to key employees at a higher price, and in substantially smaller amounts, than shares actually repurchased in the open market during the same time period.

At the 2003 Annual Meeting, stockholders approved the 2003 Employees' and Directors' Incentive Plan, under which up to 1.2 million shares could have been granted over the ten-year life of the plan. During the same period of time that 153,000 (uncancelled) option shares were granted to employees under the 2003 Plan, UTMD repurchased 1.4 million of its shares in the open market. As of December 31, 2018, 11,624 unexercised option shares remained outstanding under the 2003 Plan.

At the 2013 Annual Meeting, stockholders approved the 2013 Employees' and Directors' Incentive Plan, under which up to 600,000 shares may be granted over the ten-year life of the plan. As of December 31, 2018, 49,394 unexercised option shares were outstanding under the 2013 Plan.

After the first five years of the ten year plan approved by stockholders in 2013, the plan allowed 350,000 shares cumulatively available for grant out of the 600,000 total. In the first five years of the plan, UTMD awarded 89,400 option shares at an average exercise price of \$58.48 per share. (As an aside, 20,042 option shares of the 89,400 awarded have been cancelled as the result of employees leaving the Company prior to vesting in the right to exercise.) During the same five years, UTMD repurchased 100,207 shares in the open market at an average price including commissions and fees of \$57.81/ share. In other words, UTMD has repurchased more shares at a lower price per share than it has "sold" in the form of option awards under the 2013 plan. In combination with share repurchases, the plan has been non-dilutive to stockholders while providing a substantial incentive to key employees.

After the conclusion of the annual independent audit and public announcement of financial results, the Board of Directors typically allocates an annual amount of shares for employee options each year at its regularly scheduled Board meeting following the audited close of the prior year's financial performance. Allocated shares are usually reserved for awards later in the year to employees, including new or key employees with increased responsibilities. The Compensation and Benefits Committee approves all awards, and the closing price on the date of the approval is the exercise price of the option shares. According to policy, awards are not made in advance of material news events, or when material non-public information is known.

In December 2018, option awards were granted to 45 U.S., Ireland, UK, Canada and Australia employees to purchase a total of 22,400 shares at an exercise price of \$74.64 per share. Five hundred of the 2018 awarded shares have been cancelled as of March 2019.

Employee and director options vest over a four-year period, with a ten-year exercise period as long as the employee remains employed. Management expects to recommend additional options be awarded on an annual basis to the Company's key employees based on its belief that sharing ownership of the Company with those who help create its success is the best way to assure growth in stockholder value.

(4) Retirement Plans. The Company has sponsored a 401(k) retirement plan for U.S. employees since 1985, a contributory retirement plan for Irish employees since 1998, a contributory retirement plan for Femcare UK employees since 2011, a contributory retirement plan for Femcare Australia employees since 2013, and a contributory retirement plan for Femcare Canada employees since 2017. In addition to meeting statutory requirements, the Compensation and Benefits Committee believes that a continuance of the retirement plans is consistent with ensuring a stable employment base by helping to provide Company employees with a vehicle to build long-term financial security. In 2018, the Company contributed and paid administrative costs at a total expense, including all of its subsidiaries, of \$176,000. For 2019, the Board of Directors has approved continuing the retirement plan contributions on the same basis as in 2018.

(5) Group Benefit Plans. In the U.S., the Company provides group medical, dental and life insurance benefit plans for its employees. For U.S. employees, the health benefits plan is consistent with self-funded group plans offered by other companies. The portion of the monthly premium cost is paid by U.S. plan participants on a graduated scale so that higher paid employees pay a higher premium. In Ireland, the UK, Canada and Australia, employees do not pay premiums, and are provided medical and life coverages consistent with benefits provided to employees of similar

companies.

12

Structure for Executive Officer Compensation

The structure and activities of the Compensation and Benefits Committee meet the requirements of SEC Rule 10C-1, as mandated by Section 952 of the Dodd-Frank Act. In regard to Item 407 of Regulation S-K, in 2017 and to-date in 2018, the company has not retained or obtained the advice of a compensation advisor.

Utilizing the compensation objectives and vehicles outlined previously, the Compensation and Benefits Committee, comprised of three outside directors, establishes the annual base salary for the CEO. All other employees' salaries are set by the CEO, and reviewed by the Committee for consistency with the Company's compensation objectives. The Committee periodically uses surveys of similar companies selected from among the companies with which UTMD's stock is compared in the Stock Performance Chart, based on variations in industry type, geographic location, size, and profitability as the Committee deems appropriate. Base salary is fixed at a level somewhat below the competitive amounts paid to executive officers with comparable qualifications, experience and responsibilities at other similarly sized companies engaged in the same or similar businesses. The annual MB and long-term incentive compensation in the form of stock options were more highly leveraged and tied closely to the Company's success in achieving significant financial and non-financial goals.

The annual MB for the named executive officers are awarded using the same basis as all employees included in the annual profit-sharing MB Plan, except a bonus inflating factor related to stock option awards is not included for the CEO. The goals for executive officers include financial and non-financial goals. Financial goals include net sales, gross profit margin, operating margin, EBITDA, after-tax profits, return on equity and earnings per share. Non-financial goals include continuing the development of a talented and motivated team of employees, conceiving and implementing programs to maintain competitive advantages and to achieve consistent earnings per share growth, reacting to competitive challenges, developing business initiatives to further support critical mass in a consolidating marketplace, promoting the Company's participation in socially responsible programs, protecting intellectual property rights, maintaining compliance with regulatory requirements, achieving a high regard for the integrity of the Company and its management, and minimizing issues that represent significant business risk factors such as overly burdensome administrative programs and product liability exposure. In 2018, UTMD exceeded its beginning of year financial objectives. Based primarily on the Company's 2% higher pretax/prebonus profit, annual management bonuses were the same as in 2017 for the same level of responsibility and contribution of employees regularly participating in the MB plan. The 2% EBT increase offset the added MB growth factor in 2017.

The Committee intends that stock options serve as an important component of executive officers' total compensation in order to retain critical efforts on behalf of the Company and to focus efforts on enhancing stockholder value. The Committee believes that past option awards have successfully provided this incentive. An option for 50,000 shares was awarded the CEO in January 2004, at an exercise price of \$25.59 per share. Except for the 2004 award, no CEO options were awarded during the last twenty years.

The following chart compares annual changes in total executive compensation with changes in non-GAAP earnings per share, stockholder return (year-end share price plus cash dividends paid during the year) and UTMD year-end market capitalization, starting at December 31, 2010:

Compensation and Benefits Committee Interlocks and Insider Participation

The members of the Compensation and Benefits Committee are Ernst G. Hoyer, Barbara A. Payne and James H. Beeson. No member of the committee is a present or former officer of the Company or any subsidiary. There are no interlocks. No member of the Committee, his or her family, or his or her affiliate was a party to any material transactions with the Company or any subsidiary since the beginning of the last completed fiscal year. No executive officer of the Company serves as an executive officer, director or member of a compensation committee of any other entity, an executive officer or director of which is a member of the Compensation and Benefits Committee of UTMD.

Third Party Payments for Board Service

None of UTMD's board members has received payments from, or has any agreement or arrangement with, third parties related to his or her service on the UTMD Board.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

BOARD OF DIRECTORS AND BOARD COMMITTEE REPORTS

Director Independence

UTMD's Board of Directors has determined that a majority of its directors are independent, as that term is defined in NASD Rule 5605(a)(2), which satisfies the independence requirement of NASD Rule 5605(b)(1). The Board of Directors was not aware of any transactions, relationships or arrangements to be considered in determining that Dr. Payne, Mr. Hoyer and Dr. Beeson were independent under the NASD Rules.

Board Leadership

The roles of CEO and Chairman are held by Mr. Cornwell. Because of Mr. Cornwell's training and experience in the organization of functions of a Board of Directors, his successful tenure on the board since 1993 and the small size of the Company's board membership, the Board of Directors believes this structure is most appropriate at this time. Mr. Hoyer serves as the lead director of the outside directors because of his tenure as the longest serving outside director and his roles as Chairman of the Audit Committee and outside director representative on the Executive Committee. As the lead outside director, Mr. Hoyer coordinates independent meetings of the outside directors, and assimilates outside director questions and company management responses.

Risk Oversight

The Board of Directors takes a key role in overseeing the Company's risks. The board receives frequent timely reports of the Company's financial performance, changes in and composition of balance sheet accounts, quality assurance program effectiveness, product liability risks and status of relationships with all business constituencies including customers, employees, suppliers and government entities. The board reviews and authorizes all material contracts in which the Company enters, including banking relationships. The Governance and Nominating Committee receives regular reports on UTMD's compliance with securities laws and communications with the SEC and stockholders. The Audit Committee has established an independent whistleblower hot line to encourage early and anonymous reporting of accounting irregularities or other violations of UTMD's codes of ethics. The Board of Directors routinely reviews litigation threats, regulatory compliance, product/market strategies and operational activities of the Company.

Board Committees and Meetings

The Board of Directors held three formal meetings during 2018, and one meeting to date in 2019. The independent directors also met informally with the CEO during the year. All of the directors attended all applicable meetings during their respective incumbencies, with one exception. Dr. Beeson was unable to attend the May 2018 Annual Stockholders' Meeting and concomitant board meeting. The independent outside directors also met without executive management four times during 2018, and once to date in 2019.

The Company has Executive, Audit, Governance and Nominating and Compensation and Benefits Committees. The current members of the Company's committees are identified in the preceding Security Ownership table. In May 2014, the Board of Directors revised and readopted its standing committee charters. The written committee charters, composition, schedule of meetings and attendance are available for public review at www.utahmed.com/governance.htm.

During 2018 and to-date in 2019, the Executive Committee has held at least one informal meeting per month. Any formal actions taken on behalf of the Board of Directors by the Executive Committee were subsequently presented to the full board for ratification.

The Audit Committee formally met four times during 2018 and once to date in 2019 to review the quarterly financial reports, periodic independent accounting reviews and financial and internal control audits by UTMD's independent audit firms. The Audit Committee selects the Company's independent accountants, approves the scope of audit and related fees and reviews financial reports, audit results, internal accounting procedures, internal controls and other programs to comply with applicable requirements relating to financial accountability. The Audit Committee Chairman on behalf of the Audit Committee reviewed and selected independent auditors for the UK, Ireland, Canada and Australia subsidiaries' financial audits and tax returns.

The Governance and Nominating Committee met formally three times during 2018, and once to date in 2019. The Governance and Nominating Committee takes the lead in developing and implementing policies that are intended to ensure that the Board of Directors will be appropriately constituted and organized to meet its fiduciary obligations to the Company and its stockholders, identify individuals qualified to become members of the Board of Directors, and develop and recommend to the Board of Directors a set of corporate governance principles applicable to the Company. During its meetings, after receiving the Company's routine compliance reports, the Governance and Nominating Committee reviewed compliance by UTMD and its personnel, including executive officers and directors, with applicable regulatory requirements as well as the Company's own compliance policies, and compared its established policies and procedures for compliance with current applicable laws and regulations, under the guidance of corporate counsel, as needed.

The Governance and Nominating Committee will consider nominees recommended by stockholders. In accordance with the Company's Bylaws, stockholders' nominations for election as directors must be submitted in writing to the

Company at its principal offices not less than 30 days prior to the Annual Meeting at which the election is to be held (or if less than 40 days' notice of the date of the Annual Meeting is given or made to stockholders, not later than the tenth day following the date on which the notice of the Annual Meeting was mailed).

When considering candidates for directors, the Governance and Nominating Committee takes into account a number of factors, including the following:

judgment, skill, integrity and reputation;

whether the candidate has relevant business experience;

whether the candidate has achieved a high level of professional accomplishment;

independence from management under both Nasdaq and Securities and Exchange Commission definitions;

existing commitments to other businesses;

potential conflicts of interest with other pursuits;

corporate governance background and experience;

financial and accounting background that would permit the candidate to serve effectively on the Audit Committee;
and

size, composition, and experience of the existing Board of Directors.

Edgar Filing: THERAVANCE INC - Form 10-Q

When considering director candidates, the committee looks for diversity in experience, education, knowledge of industry and geography that when taken in the aggregate of all directors provides a robust scope of understanding of the functional and strategic challenges that the Company faces.

The committee will consider candidates for directors suggested by stockholders using the same considerations. Stockholders wishing to suggest a candidate for director should write to Governance and Nominating Committee, Utah Medical Products, Inc., 7043 South 300 West, Midvale, UT 84047 and include:

a statement that the writer is a stockholder and is proposing a candidate for consideration by the committee;

the name of and contact information for the candidate;

a statement that the candidate is willing to be considered and would serve as a director if elected;

a statement of the candidate's business and educational experience preferably in the form of a resume or curriculum vitae;

information regarding each of the factors identified above, other than facts regarding the existing Board of Directors, that would enable the committee to evaluate the candidate;

a statement detailing any relationship between the candidate and any customer, supplier, or competitor of the Company;

detailed information about any relationship or understanding between the stockholder and the proposed candidate; and

confirmation of the candidate's willingness to sign the Company's code of ethics and other restrictive covenants, and abide by all applicable laws and regulations.

Before nominating a sitting director for reelection at an annual meeting, the committee will consider:

the director's performance on the Board of Directors and attendance at Board of Directors' meetings; and

whether the director's reelection would be consistent with the Company's governance guidelines and ability to meet all applicable corporate governance requirements.

When seeking candidates for director, the committee may solicit suggestions from incumbent directors, management or others. After conducting an initial evaluation of the candidates, the committee will interview that candidate if it believes the candidate might be suitable for a position on the Board of Directors. The committee may also ask the candidate to meet with management. If the committee believes the candidate would be a valuable addition to the Board of Directors, it will recommend to the full Board of Directors that candidate's nomination.

The Compensation and Benefits Committee consulted by telephone and met formally in early 2018 and again in early 2019 to review management performance relative to objectives, recommend compensation and develop compensation strategies and alternatives throughout the Company, including those discussed in the Compensation Discussion and Analysis section of this Proxy Statement. The deliberations culminated in recommendations ratified at the February 2018 and February 2019 Board of Directors meetings. None of the members of the Compensation and Benefits Committee or executive management has engaged a compensation consultant within the past five years.

The policy of the Company is that each member of the Board of Directors is encouraged, but not required, to attend the Annual Meeting. Four of five directors attended the 2018 Annual Meeting.

Stockholder Communications with Directors

UTMD stockholders who wish to communicate with the Board, any of its committees, or with any individual director may write to the Company at 7043 South 300 West, Midvale, UT 84047. Such letter should confirm that it is from a UTMD stockholder. Depending upon the subject matter, management will:

forward the communication to the director, directors, or committee to whom it is addressed;

attempt to handle the inquiry directly if it is a request for information about UTMD or other matter appropriately dealt with by management; or

not forward the communication if it is primarily commercial in nature, or if it relates to an improper or irrelevant topic.

At each Board of Directors' meeting, a member of management presents a summary of communications received since the last meeting that were not forwarded to the directors, and makes those communications available to the directors on request.

Report of the Compensation and Benefits Committee

The Compensation and Benefits Committee has reviewed and discussed the CD&A with UTMD management. Based on that review, the Committee recommended to the Board of Directors that the CD&A be included in the Company's annual report on Form 10-K and this Proxy Statement. In August 2008, the Board of Directors adopted an updated Compensation and Benefits Committee charter. In May 2014, the Board of Directors revised and readopted the August 2008 charter, which is available at www.utahmed.com.

Submitted by the Compensation and Benefits Committee: Ernst G. Hoyer
Barbara A. Payne
James H. Beeson

Report of the Audit Committee

The Audit Committee of the Board of Directors is composed of all four outside directors, all of whom except one are independent as defined in Nasdaq Stock Market Rule 5605(a)(2) and under Rule 10A-3(b)(1) adopted pursuant to the Securities Exchange Act of 1934. The exception is Paul Richins, who prior to April 2018 had been an employee member of the board of directors since 1998 and had served as the Principal Financial Officer of UTMD. Under Nasdaq Rule 5605, Mr. Richins is not considered independent until three years after his employment ended. That notwithstanding, at the Annual Stockholder Meeting in May 2018, Mr. Richins was elected to continue as an outside director. Nasdaq Rule 5605(c)(2)(B) has an exception that allows one non-independent member of the Audit Committee “if the board, under exceptional and limited circumstances, determines that membership on the committee is required by the best interests of the Company and its Shareholders.” The board of directors made that determination based on Mr. Richins’ deep understanding of the Company’s internal control systems and financial reporting. Mr. Richins may not serve longer than two years and may not chair the Audit Committee. The remaining three members of the Audit Committee are independent and comprise a majority of the Board of Directors.

In August 2008, the Board of Directors adopted an updated Audit Committee charter. In May 2014, the Board of Directors revised and readopted the August 2008 charter, which is available at www.utahmed.com. Ernst G. Hoyer is the Board of Directors’ designated Audit Committee Chairman and Financial Expert consistent with The Sarbanes-Oxley Act of 2002.

The Audit Committee oversees the financial reporting and internal controls processes for UTMD on behalf of the Board of Directors. In fulfilling its oversight responsibilities, the Audit Committee reviewed the quarterly and annual financial statements included in the Annual Report to Stockholders and reports filed with the Securities and Exchange Commission.

The Audit Committee formally met four times during 2018 and once to date in 2019 to review the quarterly financial reports, quarterly reviews by Jones Simkins LLC, and the 2018 annual internal controls audit and financial audit by Haynie & Company, UTMD’s new independent lead auditor. The Committee also met informally as needed during the year. In accordance with Statement on Auditing Standards No. 61, discussions were held with management and the independent auditors as needed regarding the acceptability and the quality of the accounting principles used in the reports. These discussions included the clarity of the disclosures, the underlying estimates and assumptions used in the financial reporting and the reasonableness of the significant judgments and management decisions made in developing the financial statements. In addition, the Audit Committee has discussed with the independent auditors their independence from the Company and its management, including the matters in the written disclosures required by Independence Standards Board Standard No. 1 and The Sarbanes-Oxley Act of 2002.

The Audit Committee has also met with Company management and its independent auditors and discussed issues related to the overall scope and objectives of the audits conducted, the internal controls used by the Company, the openness and honesty of management, auditor verification of information provided by management, quality control procedures used by auditors in performing the independent audit and any possible conflicts of interest. The Committee elicited recommendations for improving UTMD’s internal control procedures. The independent auditors completed a formal review of the scope and effectiveness of the Company’s internal control procedures, and made a couple of informal suggestions.

Pursuant to the reviews and discussions described above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2018, for filing with the Securities and Exchange Commission.

Submitted by the Audit Committee: Ernst G. Hoyer
Barbara A. Payne
James H. Beeson

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, 2013, for the Company's Common Stock and the two indicated indices. The Company's Common Stock trades on the Nasdaq Global Market.

Cumulative stockholder 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.

	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18
Utah Medical Products, Inc.	100.0	105.9	105.1	128.2	142.8	147.0
NASDAQ Composite Total Return	100.0	114.8	122.7	133.6	173.2	168.3
NASDAQ ICB: 4537 Medical Supplies	100.0	120.2	132.9	151.2	198.7	213.3

PROPOSAL NO 2. RATIFICATION OF THE APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee selected, and the Board of Directors ratified, the engagement of Haynie & Company as the Company's auditor and independent registered public accounting firm for the year ended December 31, 2018. The Audit Committee has determined to appoint Haynie & Company as the Company's principal auditor and independent

registered public accounting firm for the year ending December 31, 2019, contingent on acceptable terms of engagement including schedule and fee agreement.

If the selection of the independent registered public accounting firm is not ratified by stockholders, the Audit Committee will reconsider its selection. Even if the selection is ratified by stockholders, the Audit Committee, in its discretion, may determine to appoint a different independent lead registered public accounting firm if the Audit Committee believes that it would be in the best interest of the Company and its stockholders.

Representatives of Haynie & Company are likely to be present at the Annual Meeting, have the opportunity to make a statement if they desire to do so and respond to stockholder questions.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE “FOR” THE RATIFICATION OF THE APPOINTMENT OF HAYNIE & COMPANY AS ITS PRINCIPAL INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR 2019.

19

Fees billed by the Principal and Other Accounting Firms

The following table shows the fees billed for the applicable prior year audits of the Company's consolidated financial statements and for other services rendered by accountants in the years 2018 and 2017.

Jones Simkins LLC	2018	2017	Other Accounting Firms	2018	2017
Audit Fees	\$127,636	\$106,900	Audit Fees	\$43,837	\$45,146
Audit-Related Fees	1,884	2,299	Audit-Related Fees	1,070	305
Tax Fees	20,800	20,800	Tax Fees	42,873	22,877
All Other Fees	-	-	All Other Fees	-	-
Total	\$150,320	\$129,999	Total	\$87,780	\$68,328

The aggregate total of accounting fees was \$238,100 in 2018 and \$198,327 in 2017.

Audit Fees. Fees for professional services rendered for the audit of the Company's annual financial statements, reviews of the financials included in UTMD's quarterly reports on Form 10 Q and related regulatory reviews, and audit of its internal controls in accordance with the Sarbanes Oxley Act of 2002. The 2018 aggregated audit fee total was \$171,473 compared to \$152,046 in 2017. The higher 2018 audit fees were due to more stringent internal controls testing by Jones Simkins.

Audit-Related Fees. Fees for due diligence in connection with acquisitions and related accounting consultations, travel expenses, compliance with financing arrangements and attest services that were not required by statute or regulation.

Tax Fees. Fees for tax filing, preparation and tax advisory services. The 2018 aggregated tax fee total was \$63,673 compared to \$43,677 in 2017. The higher 2018 tax fees were due to the additional consulting required for compliance with the U.S. TCJA enacted in December 2017 and professional tax services in the UK related to capital allowances for the new facility and corporate reorganization.

All Other Fees. Fees for any other services not included in audit fees, audit-related fees and tax fees.

Audit Committee Policy and Approval

The engagements of UTMD auditors to perform all of the above-described services were made by the Audit Committee. This includes independent auditor firms other than Jones Simkins LLC and Haynie & Company that were required for financial audits of Femcare and its subsidiaries, year-end and statutory fiscal year 2018 financial and internal control audits of Femcare and its subsidiaries, the completion of tax returns for foreign subsidiaries including Femcare and its subsidiaries, and statutory audits of the Company's employee benefits plans. The policy of the Audit Committee is to require that all services performed by independent auditors be pre-approved by the Audit Committee before services are performed.

Auditor Independence

The Audit Committee has considered whether the provision of the services rendered for nonaudit matters is compatible with maintaining Jones Simkins' or Haynie & Company's independence, and concluded that auditor independence was not impaired by performing such work for the Company.

PROPOSAL NO 3. ADVISORY VOTE ON EXECUTIVE COMPENSATION

As described in the Compensation Discussion and Analysis, UTMD seeks to develop and implement its executive compensation program to enhance the long-term financial value of the Company by closely aligning the financial interests of the Company's senior management and other key employees with those of its stockholders.

The Board of Directors values and encourages constructive dialogue on compensation and other important governance topics with stockholders, to whom it is ultimately accountable. The Board of Directors has determined to provide stockholders with an advisory vote on executive compensation every year, which it believes will enhance stockholder communication by providing another avenue to obtain information on stockholder views about the Company's executive compensation program.

Although the vote is non-binding, the Board of Directors and Compensation and Benefits Committee will review the voting results and consider constructive feedback obtained through this process in making future decisions about executive compensation.

Accordingly, the Board of Directors proposes that stockholders approve the following advisory resolution:

RESOLVED, that the UTMD stockholders approve, on an advisory basis, the compensation paid to UTMD's named executive officers, as disclosed pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, compensation tables and narrative discussion.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THIS PROPOSAL

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE STOCKHOLDER MEETING TO BE HELD ON MAY 3, 2019

This proxy statement and the 2018 Annual Report to stockholders are available at www.utahmed.com/proxy.htm.

STOCKHOLDER PROPOSALS

It is anticipated that the next Annual Meeting of Stockholders will be held during May 2020. In accordance with SEC Rule 14a-8 and the advance notice requirements of Section 2.15 of UTMD's Bylaws, stockholders may present proposals for inclusion in the Proxy Statement to be mailed in connection with the 2020 Annual Meeting of Stockholders of the Company, provided such proposals are received by the Company no later than December 3, 2019, and are otherwise in compliance with applicable laws and regulations and the governing provisions of the Articles of Incorporation and Bylaws of the Company.

MISCELLANEOUS

Other Business

There is no business other than that referred to in the Notice that may be considered at the Annual Meeting.

In order to assure the presence of the necessary quorum and to vote on the matters to come before the Annual Meeting, please indicate your choices on the enclosed proxy and date, sign and return it promptly in the envelope provided. Whether or not you sign a proxy, UTMD encourages you to attend the meeting.

By Order of the Board of Directors,
UTAH MEDICAL PRODUCTS, INC.

Salt Lake City, Utah Kevin L. Cornwell
March 8, 2019 Chairman and CEO

PROXY

Annual Meeting of the Stockholders of (This Proxy is Solicited on Behalf
Utah Medical Products, Inc. of the Board of Directors)

The undersigned hereby appoint Kevin L. Cornwell and Brian L. Koopman, and each of them, proxies, with full power of substitution, to vote the shares of common stock of Utah Medical Products, Inc. (the "Company") which the undersigned is entitled to vote at the Annual Meeting of Stockholders of the Company (the "Annual Meeting") to be held at the corporate offices of the Company, 7043 South 300 West, Midvale, Utah, on May 3, 2019, at 12:00 noon, local time, and any postponement or adjournment(s) thereof, such proxies being directed to vote as specified below. If no instructions are specified, such proxies will be voted "FOR" proposals 1-3.

To vote in accordance with the Board of Directors' recommendations, sign below; check the "FOR" boxes on proposals 1-3. To vote against any of the board's recommendations on proposals 1-3, check the appropriate box(es) marked "WITHHOLD@ or AAGAINST," below.

To elect one director of the Company to serve a three
(1) year term and until their successor is elected and
qualified;

Barbara A. Payne: FOR WITHHOLD

To ratify the selection of Haynie & Company as the
(2) Company's independent public accounting firm for the
year ending December 31, 2019;

FOR AGAINST ABSTAIN

To approve, by advisory vote, the Company's
(3) executive compensation program;

FOR AGAINST ABSTAIN

PLEASE SIGN EXACTLY AS YOUR NAME APPEARS IN THE RECORDS OF THE COMPANY. WHEN SHARES ARE HELD BY JOINT TENANTS, BOTH SHOULD SIGN. IF YOUR SHARES ARE HELD AT A BROKERAGE HOUSE, PLEASE INDICATE THE NAME OF THE BROKERAGE HOUSE AND THE NUMBER OF SHARES HELD.

Dated No. of Shares _____

Signature Signature (if held jointly) _____

Print Name Print Name _____

PLEASE ACT PROMPTLY

PLEASE MARK, SIGN, DATE, AND RETURN PROXY IN THE BUSINESS REPLY ENVELOPE PROVIDED. NO POSTAGE IS REQUIRED IF MAILED IN THE UNITED STATES.

Important Notice Regarding the Availability of Proxy Materials for the Stockholders Meeting to Be Held on May 3, 2019 - the proxy statement and annual report are available at www.utahmed.com/proxy.htm.

Utah Medical Products, Inc.

7043 South 300 West

Midvale, Utah 84047
