FIRST BANCORP /NC/
Form 10-K
March 01, 2019

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2018

Commission File Number 0-15572

FIRST BANCORP

(Exact Name of Registrant as Specified in its Charter)

North Carolina (State of Incorporation)	56-1421916 (I.R.S. Employer Identification Number)
300 SW Broad Street, Southern Pines, North Carolina (Address of Principal Executive Offices)	28387 (Zip Code)
Registrant’s telephone number, including area code:	(910) 246-2500

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

Title of each class	Name of each exchange on which registered
Common Stock, No Par Value	The Nasdaq Global Select Market

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act of 1933. x YES o NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934. o YES x NO

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x YES o NO

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). x YES o NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment to the Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

x Large Accelerated Filer o Accelerated Filer o Non-Accelerated Filer

o Smaller Reporting Company o Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

The aggregate market value of the Common Stock, no par value, held by non-affiliates of the registrant, based on the closing price of the Common Stock as of June 30, 2018 as reported by The NASDAQ Global Select Market, was approximately $1,188,000,000.

The number of shares of the registrant's Common Stock outstanding on February 28, 2019 was 29,723,682.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement to be filed pursuant to Regulation 14A are incorporated herein by reference into Part III.

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* Information called for by Part III (Items 10 through 14) is incorporated herein by reference to the Registrant's definitive Proxy Statement for the 2019 Annual Meeting of Shareholders to be filed with the Securities and Exchange Commission on or before April 30, 2019.

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FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 and the Private Securities Litigation Reform Act of 1995, which statements are inherently subject to risks and uncertainties. Forward-looking statements are statements that include projections, predictions, expectations or beliefs about future events or results or otherwise are not statements of historical fact. Further, forward-looking statements are intended to speak only as of the date made. Such statements are often characterized by the use of qualifying words (and their derivatives) such as “expect,” “believe,” “estimate,” “plan,” “project,” or other statements concerning our opinions o judgment about future events. Our actual results may differ materially from those anticipated in any forward-looking statements, as they will depend on many factors about which we are unsure, including many factors which are beyond our control. Factors that could influence the accuracy of such forward-looking statements include, but are not limited to, the financial success or changing strategies of our customers, our level of success in integrating acquisitions, actions of government regulators, the level of market interest rates, and general economic conditions. For additional information about factors that could affect the matters discussed in this paragraph, see the “Risk Factors” section in Item 1A of this report.

PART I

Item 1. Business

General Description

First Bancorp (the “Company”) is the fourth largest bank holding company headquartered in North Carolina. At December 31, 2018, the Company had total consolidated assets of $5.9 billion, total loans of $4.2 billion, total deposits of $4.7 billion, and shareholders’ equity of $0.8 billion. Our principal activity is the ownership and operation of First Bank (the “Bank”), a state-chartered bank with its main office in Southern Pines, North Carolina.

The Company was incorporated in North Carolina on December 8, 1983, as Montgomery Bancorp, for the purpose of acquiring 100% of the outstanding common stock of the Bank through a stock-for-stock exchange. On December 31, 1986, the Company changed its name to First Bancorp to conform its name to the name of the Bank, which had changed its name from Bank of Montgomery to First Bank in 1985.

The Bank was organized in 1934 and began banking operations in 1935 as the Bank of Montgomery, named for the county in which it operated. Until September 2013, the Bank’s main office was in Troy, North Carolina, located in the center of Montgomery County. In September 2013, the Company and the Bank moved their main offices approximately 45 miles to Southern Pines, North Carolina, in Moore County. As of December 31, 2018, we conducted business from 101 branches covering a geographical area from Florence, South Carolina to the south, to Wilmington, North Carolina to the east, to Kill Devil Hills, North Carolina to the northeast, to Mayodan, North Carolina to the north, and to Asheville, North Carolina to the west. Of the Bank's 101 branches, 95 branches are in North Carolina and six branches are in South Carolina. Ranked by assets, the Bank was the fourth largest bank headquartered in North Carolina as of December 31, 2018 and the only one with total assets between $4 billion and $35 billion.

As of December 31, 2018, the Bank had three wholly owned subsidiaries, First Bank Insurance Services, Inc. ("First Bank Insurance"), SBA Complete, Inc. ("SBA Complete"), and First Troy SPE, LLC. First Bank Insurance's primary business activity is the placement of property and casualty insurance coverage. SBA Complete specializes in providing consulting services for financial institutions across the country related to Small Business Administration ("SBA") loan origination and servicing. First Troy SPE, LLC, which was organized in December 2009, is a holding entity for certain foreclosed properties.

Our principal executive offices are located at 300 SW Broad Street, Southern Pines, North Carolina, 28387, and our telephone number is (910) 246-2500. Unless the context requires otherwise, references to the "Company," "we," "our," or "us" in this annual report on Form 10-K shall mean collectively First Bancorp and its consolidated subsidiaries.

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General Business

We engage in a full range of banking activities, with the acceptance of deposits and the making of loans being our most basic activities. We offer deposit products such as checking, savings, and money market accounts, as well as time deposits, including various types of certificates of deposits ("CDs") and individual retirement accounts ("IRAs"). We provide loans for a wide range of consumer and commercial purposes, including loans for business, real estate, personal uses, home improvement and automobiles. We offer residential mortgages through our Mortgage Banking Division, and we offer SBA loans to small business owners across the nation through our SBA Lending Division. We also offer credit cards, debit cards, letters of credit, safe deposit box rentals and electronic funds transfer services, including wire transfers. In addition, we offer internet banking, mobile banking, cash management and bank-by-phone capabilities to our customers, and are affiliated with ATM networks that give our customers access to thousands of ATMs across the country, with no surcharge fee. We also offer a mobile check deposit feature for our mobile banking customers that allows them to securely deposit checks via their smartphone. For our business customers, we offer remote deposit capture, which provides them with a method to electronically transmit checks received from customers into their bank account without having to visit a branch. We are a member of the Certificate of Deposit Account Registry Service ("CDARS"), which gives our customers the ability to obtain Federal Deposit Insurance Corporation ("FDIC") insurance on deposits of up to $50 million, while continuing to work directly with their local First Bank branch.

Because the majority of our customers are individuals and small to medium-sized businesses located in the markets we serve, management does not believe that the loss of a single customer or group of customers would have a material adverse impact on the Bank. There are no seasonal factors that tend to have any material effect on the Bank's business, and we do not rely on foreign sources of funds or income. Because we operate primarily within North Carolina and northeastern South Carolina, the economic conditions of these areas could have a material impact on the Company. See additional discussion below in the section entitled "Territory Served and Competition."

We also offer various ancillary services as part of our commitment to customer service. Through First Bank Insurance, we offer the placement of property and casualty insurance. We also offer non-FDIC insured investment and insurance products, including mutual funds, annuities, long-term care insurance, life insurance, and company retirement plans, as well as financial planning services through our investments division called FB Wealth Management Services.

First Bank also offers SBA loans to small business owners throughout the nation, which is supported by First Bank's subsidiary, SBA Complete. SBA Complete specializes in providing consulting services for financial institutions across the country related to SBA loan origination and servicing.

The Company is also the parent to a series of statutory business trusts organized for the purpose of issuing trust preferred debt securities that qualify as regulatory capital. See additional discussion below in the section entitled "Borrowings."

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Territory Served and Competition

Our headquarters are located in Southern Pines, Moore County, North Carolina, where we have a significant concentration of deposits. At the end of 2018, we served regions spread across North Carolina, with additional operations in northeastern South Carolina. The following table presents, for each county where we operated as of December 31, 2018, the number of bank branches operated by the Bank within the county, the approximate amount of deposits with the Bank in the county as of December 31, 2018, our approximate deposit market share at June 30, 2018, and the number of bank competitors located in the county at June 30, 2018.

County	Number of Branches	Deposits (in millions)	Market Share	Number of Competitors
Alamance, NC	1	$ 53	2.5%	15
Beaufort, NC	2	66	9.4%	7
Bladen, NC	1	31	10.2%	4
Brunswick, NC	4	187	8.6%	11
Buncombe, NC	8	538	10.3%	16
Cabarrus, NC	2	52	2.0%	11
Carteret, NC	2	52	3.8%	8
Chatham, NC	2	47	6.8%	9
Chesterfield, SC	1	44	10.7%	6
Columbus, NC	2	50	6.2%	5
Cumberland, NC	1	25	0.6%	14
Dare, NC	1	23	1.6%	8
Davidson, NC	2	133	5.0%	10
Dillon, SC	3	65	22.3%	4
Duplin, NC	3	171	21.1%	6
Florence, SC	2	57	2.4%	12
Forsyth, NC	4	61	0.2%	15
Guilford, NC	6	414	4.3%	17
Harnett, NC	3	130	12.8%	9
Henderson, NC	2	66	3.5%	12
Iredell, NC	3	70	2.4%	19
Lee, NC	3	209	23.4%	9
Madison, NC	1	41	41.2%	1
McDowell, NC	1	58	17.4%	5
Mecklenburg, NC	2	51	0.0%	24
Montgomery, NC	2	137	43.5%	2
Moore, NC	10	481	35.7%	9
New Hanover, NC	5	215	2.2%	19
Onslow, NC	2	100	6.8%	10
Pitt, NC	1	22	0.7%	14
Randolph, NC	3	143	9.4%	11
Richmond, NC	1	62	12.6%	5

Robeson, NC	4	204	18.8%	8
Rockingham, NC	1	24	2.4%	10
Rowan, NC	1	58	4.1%	13
Scotland, NC	1	82	22.6%	6
Stanly, NC	4	111	11.2%	6
Transylvania, NC	1	24	4.7%	6
Wake, NC	3	62	0.2%	31
Brokered Deposits	—	240		
Total	101	$ 4,659		

Historically, our branches and facilities have been primarily located in small to medium-sized communities, whose economies are based primarily on a variety of industries, including services and manufacturing. Leading producers of lumber and rugs are located in Montgomery County, North Carolina. The Pinehurst area within Moore County, North Carolina, is a widely known golf resort and retirement area. The High Point, North Carolina area is widely known for its furniture market. New Hanover and Brunswick Counties, located in the southeastern coastal region of North Carolina, are popular with tourists and have significant retirement populations. Buncombe County, located in the western region of North Carolina, is a highly diverse area with industries in manufacturing, service, and tourism. Additionally, several of the communities served by the Bank are “bedroom” communities of large cities like Charlotte, Raleigh and Greensboro, while several branches are located in medium-sized cities such as Albemarle, Asheboro, Fayetteville, Greenville, Jacksonville, High Point, Southern Pines, and Sanford.

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In recent years, we have implemented a branch strategy of expansion into larger, higher growth markets. In 2016, this expansion continued with additional investments in Charlotte, Raleigh and the Triad region of North Carolina. Several seasoned bankers joined the Bank and have led our expansion efforts in these markets. We opened our first full service branch in Charlotte in August 2016, after opening a loan production office there in 2015. In Raleigh, we opened a loan production office early in 2016 and upgraded that location to a full service branch in April 2017. In the Triad region, experienced bankers joined us in early 2016 as we opened our first loan production office in Greensboro. Our expansion into higher growth markets was significantly enhanced by three strategic transactions that we implemented in 2016 and 2017. See discussion below in the section entitled “Mergers and Acquisitions.”

We have three counties that hold significant shares of our deposit base. Buncombe County, the former headquarters of one of our 2017 acquisitions (Asheville Savings Bank), holds 12% of our total deposit base. Moore County, the headquarters of the Company, has total deposits comprising approximately 10% of our deposit base, while Guilford County, the former headquarters of another 2017 acquisition (Carolina Bank), also holds 10% of our deposit base. Accordingly, material changes in competition, the economy or the population of these counties could materially impact the Company. No other county comprises more than 10% of our deposit base.

We compete in our various market areas with, among others, several large interstate bank holding companies. These large competitors have substantially greater resources than our Company, including broader geographic markets, higher lending limits and the ability to make greater use of large-scale advertising and promotions. A significant number of interstate banking acquisitions have taken place in the past few years, thus further increasing the size and financial resources of some of our competitors, some of which are among the largest bank holding companies in the nation. In many of our markets, we also compete against smaller, local banks. With banks of all sizes attempting to maximize yields on earning assets, the competition for high-quality loans remains intense. Accordingly, loan rates in our markets continue to be under competitive pressure. Also, with the continued interest rate increases initiated by the Board of Governors of the Federal Reserve System (“Federal Reserve”), the competitive pressure on increasing rates on deposits has intensified. Many of the markets we operate in are particularly competitive markets, with at least ten other financial institutions having a physical presence within those markets.

We compete not only against banking organizations, but also against a wide range of financial service providers, including federally and state-chartered thrift institutions, credit unions, investment and brokerage firms and small-loan or consumer finance companies. One of the credit unions in our market area is among the largest in the nation. Competition among financial institutions of all types is virtually unlimited with respect to legal ability and authority to provide most financial services. We also experience competition from internet loan providers, especially for mortgage loans, and from internet banks, particularly in the area of time deposits.

Despite the competitive market, we believe we have certain advantages over our competition in the areas we serve. We are large enough to be able to more easily absorb higher costs being experienced in the banking industry, particularly regulatory costs and technology costs, than the smaller banks with which we compete. We are also able to originate significantly larger loans than many of our smaller bank competitors. At the same time, we attempt to maintain a banking culture associated with smaller banks – a culture that has a personal and local flavor that appeals to many retail and small business customers. Specifically, we seek to maintain a distinct local identity in each of the communities we serve and we actively sponsor and participate in local civic affairs. Most lending and other customer-related business decisions can be made without the delays often associated with larger institutions. Additionally, employment of local managers and personnel in various offices and low turnover of personnel enable us to establish and maintain long-term relationships with individual and corporate customers. Also, due to acquisitions of other banks headquartered in North Carolina and South Carolina, we are the only bank headquartered in North Carolina with total assets between $4 billion and $35 billion and the only bank headquartered in either state with total assets between $4 billion and $14 billion. We believe that enhances several of our competitive advantages discussed above, as well as provides scarcity value from an investor viewpoint.

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Lending Policy and Procedures

Conservative lending policies and procedures and appropriate underwriting standards are high priorities of the Bank. Loans are approved under our written loan policy, which provides that lending officers, principally branch managers, have authority to approve loans of various amounts up to $350,000 with lending limits varying depending upon the experience of the lending officer and whether the loan is secured or unsecured. We have seven senior lending officers who have authority to approve secured loans up to $500,000 and each of our five Regional Presidents has authority to approve secured loans up to $1,000,000. Loans up to $5,000,000 are approved by the Bank's Regional Credit Officers through our Credit Administration Department. The Bank's President and Chief Credit Officer have authority to approve loans up to $10,000,000, while the President and the Chief Credit Officer have joint authority to approve loans up to $25,000,000. The Bank's Board of Directors maintains loan authority in excess of the Bank's in-house limit, currently $25,000,000, and generally approves loans through its Executive Loan Committee. All lending authorities are based on the borrower's Total Credit Exposure ("TCE"), which is an aggregate of the Bank's lending relationship to the borrower. TCE is based on the borrower's total credit exposure with the Bank either directly or indirectly through loan guarantees or other borrowing entities related to the borrower through control or ownership.

The Executive Loan Committee reviews and approves loans that exceed the Bank's in-house limit, loans to executive officers, directors, and their affiliates and, in certain instances, other types of loans. New credit extensions are reviewed daily by our senior management and the Credit Administration Department.

We continually monitor our loan portfolio to identify areas of concern and to enable us to take corrective action. Lending and credit administration officers and the board of directors meet periodically to review past due loans and portfolio quality, while assuring that the Bank is appropriately meeting the credit needs of the communities it serves. Individual lending officers are responsible for monitoring any changes in the financial status of borrowers and pursuing collection of early-stage past due amounts. For certain types of loans that exceed our established parameters of past due status, the Bank's Asset Resolution Group assumes the management of the loan, and in some cases we engage a third-party firm to assist in collection efforts.

The Bank has an internal Loan Review Department that conducts on-going and targeted reviews of the Bank's loan portfolio and assesses the Bank's adherence to loan policies, risk grading and accrual policies. Reports are generated for management based on these activities and findings are used to adjust risk grades as deemed appropriate. In addition, these reports are shared with the Bank's Board of Directors. The Loan Review Department also provides training assistance to the Bank's Training and Credit Administration departments.

To further assess the Bank's loan portfolio and as a secondary review of the Bank's Loan Review Department, we also contract with an independent consulting firm to review new loan originations meeting certain criteria, as well as to assign risk grades to existing credits meeting certain thresholds. The consulting firm's observations, comments, and risk grades, including variances with the Bank's risk grades, are shared with the audit committee of the Company's board of directors and are considered by management in setting Bank policy, as well as in evaluating the adequacy of our allowance for loan losses. For additional information, see “Allowance for Loan Losses and Loan Loss Experience” under Item 7 below.

Investment Policy and Procedures

We have adopted an investment policy designed to maximize our income from funds not needed to meet loan demand, in a manner consistent with appropriate liquidity and risk objectives. Pursuant to this policy, we may invest in U.S. government and government-sponsored enterprises, mortgage-backed securities, state and municipal obligations, public housing authority bonds, and, to a limited extent, corporate bonds. We may also invest up to $60 million in time deposits with other financial institutions. Time deposit purchases from any one financial institution exceeding FDIC insurance coverage limits are evaluated as a corporate bond and are subject to the same due diligence requirements as corporate bonds (described below).

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In making investment decisions, we do not solely rely on credit ratings to determine the credit-worthiness of an issuer of securities, but we use credit ratings in conjunction with other information when performing due diligence prior to the purchase of a security. Securities that are not rated investment grade will not be purchased. Securities rated below Moody's BAA or Standard and Poor's BBB generally will not be purchased. Securities rated below A are periodically reviewed for credit-worthiness. We may purchase non-rated municipal bonds only if such bonds are in our general market area and we determine these bonds have a credit risk no greater than the minimum ratings referred to above. We are also authorized by our Board of Directors to invest a portion of our securities portfolio in high quality corporate bonds, with the amount of such bonds not to exceed 15% of the entire securities portfolio. Prior to purchasing a corporate bond, the Company's management performs due diligence on the issuer of the bond, and the purchase is not made unless we believe that the purchase of the bond bears no more risk to the Company than would an unsecured loan to the same company. On a quarterly basis, we review the financial statements for the corporate bond issuers that we own for any signs of deterioration so that we can take timely action if deemed necessary.

Our Chief Investment Officer implements the investment policy, monitors the investment portfolio, recommends portfolio strategies and reports to the Company's Investment Committee. The Investment Committee generally meets on a quarterly basis to review investment activity and to assess the overall position of the securities portfolio. The Investment Committee compares our securities portfolio with portfolios of other companies of comparable size. In addition, reports of all purchases, sales, issuer calls, net profits or losses and market appreciation or depreciation of the securities portfolio are reviewed by our Board of Directors. Once a quarter, our interest rate risk exposure is evaluated by our Board of Directors. Each year, the written investment policy is approved by the board of directors.

Mergers and Acquisitions

As part of our operations, we have pursued an acquisition strategy over the years to augment our organic growth. We regularly evaluate the potential acquisition of various financial institutions. Our acquisitions have generally fallen into one of three categories: 1) an acquisition of a financial institution or branch thereof within a market in which we operate, 2) an acquisition of a financial institution or branch thereof in a market contiguous or nearly contiguous to a market in which we operate, or 3) an acquisition of a company that has products or services that we do not currently offer. Historically, we have paid for our acquisitions with cash and/or common stock and any operating income or loss has been fully borne by the Company beginning on the closing date of the acquisition.

Since becoming a public company in 1987, we have completed numerous acquisitions in each of the three categories described above. We have completed several whole-bank traditional acquisitions in our existing and contiguous markets; we have purchased a number of bank branches from other banks (both in existing market areas and in contiguous/nearly contiguous markets); and we have acquired several insurance agencies, which has provided us with the ability to offer property and casualty insurance coverage.

In 2009, FDIC-assisted acquisitions began to occur frequently as banking regulators closed problem banks. In FDIC-assisted transactions, the acquiring bank often does not pay any consideration for the failed bank, and in some cases receives cash from the FDIC as part of the transaction. In addition, the acquiring bank usually enters into one or more loss share agreements with the FDIC, which affords the acquiring bank significant loss protection. In both 2009 and 2011 we acquired the operations of failed banks in FDIC-assisted transactions. See the Company's Annual Reports on Form 10-K for those years for more information on these acquisitions.

The following paragraphs describe the other acquisitions that we have completed in the past three years.

In January 2016, we acquired Bankingport, Inc., an insurance agency based in Sanford, North Carolina. Although not material to the Company's consolidated operations, the acquisition provided us with the opportunity to enhance our product offerings, as well as expand our insurance agency operations into a significant banking market for our Company. Also, this acquisition provides us a larger platform for leveraging insurance services throughout our bank branch network.

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In May 2016, we completed the acquisition of SBA Complete. SBA Complete specializes in consulting with financial institutions across the country related to SBA loan origination and servicing. Many community banks do not have the in-house capability to comprehensively originate and service those types of loans, so they contract with SBA Complete for assistance. To learn more about this subsidiary of the Bank, please visit www.sbacomplete.com. Information included on our Internet site is not incorporated by reference into this annual report.

Soon after the acquisition of SBA Complete, we leveraged its capabilities by launching our own SBA Lending Division. Through a network of specialized First Bank loan officers, this Division offers SBA loans to small business owners throughout the United States. We typically sell the portion of each loan that is guaranteed by the SBA at a premium and record the non-guaranteed portion to our balance sheet. To learn more about our SBA Lending Division, please visit www.firstbanksba.com. Information included on our Internet site is not incorporated by reference into this annual report.

In March 2016, we announced an agreement to exchange our seven Virginia branches, with approximately $151 million in loans and $134 million in deposits, for six North Carolina branches of a community bank with a large Virginia presence that included approximately $152 million in loans and $111 million in deposits. Four of the six branches we assumed were in Winston-Salem, with the other two branches located in the Charlotte-metro markets of Mooresville and Huntersville. The Winston-Salem branches we assumed improved the Triad expansion initiative, while the Mooresville and Huntersville branches increased our Charlotte market expansion. This transaction, which was completed in July 2016, resulted in our exit from western Virginia. The opportunity to assume what is essentially a banking franchise in markets where we had recently invested in human capital was the primary factor we considered in entering into the exchange agreement.

In March 2017, we acquired Carolina Bank Holdings, Inc. ("Carolina Bank"), the parent company of Carolina Bank. Carolina Bank was a community bank headquartered in Greensboro with $682 million in assets, with eight branches located in Greensboro, Winston-Salem, Burlington andAMILY: times new roman; FONT-SIZE: 10pt">5.0%

309 North Water Street

Milwaukee, Wisconsin 53202

Directors and Executive Officers				
Kevin L. Cornwell (1)	Direct	260,314	6.9	%
	Options	-	0.0	%
	Total	260,314	6.9	%
Ernst G. Hoyer (1)(2)(3)(4)	Direct	32,358	0.9	%
	Options	-	0.0	%
	Total	32,358	0.9	%
Barbara A. Payne(2)(3)(4)	Direct	29,838	0.8	%
	Options	-	0.0	%

	Total	29,838	0.8	%
Paul O. Richins	Direct	26,131	0.7	%
	Options	250	0.0	%
	Total	26,381	0.7	%
James H. Beeson(2)(3)(4)	Direct	5,433	0.1	%
	Options	12,379	0.3	%
	Total	17,812	0.5	%
All executive officers and	Direct	354,074	9.4	%
directors as a group (5 persons)	Options	12,629	0.3	%
	Total	366,703	9.7	%

(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 shareholder 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% shareholders 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% shareholders 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.

2014 Summary Compensation Table

Name and Principal Position	Year	Salary ($)	Bonus ($)	Option Awards ($)	Non-equity Incentive Plan Compensation ($)	All Other Compensation ($)	Total ($)
Kevin L. Cornwell	2014	234,000	--	--	277,200	6,840	518,040
Chairman & CEO	2013	234,000	--	--	252,000	6,720	492,720
	2012	234,000	--	--	259,350	6,900	500,250
Paul O. Richins	2014	111,632	--	--	19,050	3,818	134,500
VP & Principal Financial Officer	2013	108,393	--	--	18,106	3,297	129,796
	2012	105,528	--	--	18,634	3,679	127,841

Narrative disclosure to the Summary Compensation Table:

1. 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 2014, each named executive officer will be eligible to receive payment of eligible medical expenses under the employee Health Plan, up to $6,360 in 401(k) matching contributions, up to $500 in pet health cost reimbursements and up to $600 in matching Section 125 matching contributions.

2. 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.

3. Non-equity Incentive Plan Compensation amounts, as described in more detail starting on page 10 under Bonuses were paid in late December or early February of the applicable following calendar year, representing Management

Bonuses earned during the fiscal year reported.

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2014 Grants of Equity Incentive Plan-Based Awards

Named Executive Officer	Grant Date	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise Price of Option Awards ($ / Sh)
Paul O. Richins	5/6/2014	1,000	50.72

The Company's only equity incentive plan is its 2013 Employees' and Directors' Incentive Plan, under which all option awards were issued in 2013, including those to Mr. Richins. No stock option awards are currently planned for 2015 for the named executive officers listed in the Summary Compensation Table.

2014 Grants of Non-Equity Incentive Plan-Based Awards

Named Executive Officers participated in the Profit-Sharing Sales & Management Bonus Plan (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 2014 awards under the MB Plan to the named executive officers were recommended by the Compensation and Benefits Committee in early 2015, 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 2015.

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 2015 will remain the same as set in 2014 and 2013. The annual MB paid to Mr. Cornwell in early 2015 for 2014 performance represented 54% of his total 2014 compensation. Mr. Cornwell's 2014 MB was 10% higher than in 2013. In 2014, the Company's consolidated EBT prior to accrual of the annual MB was up 10%. EPS were up 9% (not including a 2013 tax provision reduction resulting from a deferred tax liability adjustment that increased 2013 EPS). Consistent with prior years, Mr. Cornwell's MB was tied closely to UTMD profits and eps.

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 Committee comprised of all the independent directors. Eighty-six UTMD employees, including employees of its subsidiaries, received bonuses for 2014 performance.

Mr. Richins' base salary at the beginning of 2015 was $112,600, which is subject to review and adjustment during the year on the same basis as the Company's performance review criteria for its exempt employees. Mr. Richins' MB, which was about 14% of his total compensation in 2014, increased 5% compared to 2013, consistent with other exempt employees' MB (excluding the CEO).

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, 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 shareholder 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, and the appreciation of stock value for awarded options above the option exercise price. Mr. Cornwell currently has no outstanding option shares. Based on actual salary plus bonuses for the three years of 2012-2014, the additional compensation would be $1,490,550.

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 value paid by an acquiring company that exceeds $14.00 per share. For example, at the $60.05 per share closing price at the end of 2014, the amount of incentive compensation in the event of an acquisition of UTMD would be $3,453,750. At the time of the execution of the agreement, the value per UTMD share was $7.75.

Except for notice, or payment in lieu thereof, provisions in UK employee contracts, UTMD's CEO is the only employee with a formal termination benefit agreement, which was last modified in 1998. Unless acquired as part of the acquisition of another company in a stock purchase transaction, 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 other 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, 2014, including those held by outside directors, was 90,538 at an average exercise price of $36.704/ share. At the year-end 2014 per share closing price of $60.05, the amount of change of control pay due all optionees would be $2,113,700.

Outstanding Equity Awards at 2014 Fiscal Year End

	Option Awards			
Named Executive Officer	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)	Option Expiration Date
Paul O. Richins	0	1,000	50.72	5/6/2024

The Company has no outstanding Stock Awards.

2014 Option Exercises and Stock Vested

No stock option exercises were made in 2014 by any of the named executive officers listed in the Summary Compensation Table. The Company has made no Stock Awards.

2014 Pension Benefits

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

2014 Nonqualified Deferred Compensation

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

2014 Director Compensation

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Option Awards ($)	All Other Compensation ($)	Total ($)

James Beeson	25,000	--	--	--	25,000
Ernst Hoyer	32,000	--	--	--	32,000
Barbara Payne	25,000	--	--	--	25,000

Narrative disclosure to the 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 director's fee.
2. Dr. Beeson received the $25,000 base annual director's fee.
3. Dr. Payne received the $25,000 base annual director's fee.
4. For 2015, the outside directors' fees will remain the same.

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At the 2003 Annual Meeting, shareholders 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 2004-2014, 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, shareholders 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, 2014, 12,379 total unexercised outside director options were outstanding; 10,000 with a $31.33 exercise price and 2,379 with a $28.13 exercise price. The Company is required to pay outside director optionees the appreciation of stock value for issued options above the option exercise price in the event of a change of control of the Company. At the $60.05 per share closing price at the end of 2014, the amount of change in control pay due outside directors would be $363,100, which amount is included in the total change in control pay disclosed above.

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 shareholders and for all plans not previously approved by shareholders:

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	91,000	$ 36.70	113,000
Equity compensation plans not approved by security holders	-	(Not applicable)	-
Total	91,000	$ 36.70	113,000

Additional disclosure regarding dilution from equity awards:

In 2003 and 2013, shareholders 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 shareholders of stock option awards is provided in the tables below:

	2012	2013	2014
Option shares available for award per shareholder approved option plans (beginning of year)	864,454	963,423	100,000
Option shares allocated by the Board of Directors	13,000	13,000	40,000
Total option shares awarded	13,000	0	39,000

	2012	2013	2014
Total unexercised awarded option shares (end of year)	149,527	90,978	90,538
Weighted-average unexercised option exercise price	$ 26.68	$ 27.39	$ 36.70
Closing market price of UTMD stock per share (end of year)	$ 36.05	$ 57.16	$ 60.05
(A) Dilution from options (shares)	33,961	46,636	26,939
(B) Weighted average shares outstanding	3,677,311	3,727,982	3,746,642
Total diluted shares outstanding (A+B), used for EPS calculation	3,711,272	3,774,618	3,773,581

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COMPENSATION DISCUSSION AND ANALYSIS

General

Under the supervision of the Compensation and Benefits Committee, the Company has developed and implemented compensation policies, plans and programs that seek to enhance the long-term profitability, EPS growth and return on shareholders' equity (ROE) of the Company, and thus shareholder value, by aligning closely the financial interests of the Company's senior management and other key employees with those of its shareholders. The long term key financial performance objectives are a 20% annually compounded rate of increase in EPS and an average ROE prior to payment of cash dividends greater than 25%. The Company has actually achieved a 16% annually compounded rate of increase in EPS and an average of 29% ROE (prior to payment of shareholder dividends) over the twenty-eight 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 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 shareholders.

The Company believes that its compensation policies, in particular its profit-sharing management bonus program and employee stock option awards, align key employee compensation with shareholder interest in creating longer term shareholder 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 shareholder 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 state and federal 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 bonus 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 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 Sales & 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 bonus 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 as 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. In 2014, 86 employees, including employees of UTMD's subsidiaries, were included in the distribution of a $569,000 annual MB Plan payout, not including payroll taxes. The MB Plan also funded $2,500 in extraordinary bonuses paid contemporaneously to non-executive employees during the year, $11,900 in non-exempt employee attendance bonuses, and $12,700 in holiday chits to employees.

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 shareholder value. The Board of Directors considers this policy highly contributory to growth in future shareholder value. The number of options awarded in 2014 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 shareholder 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 ten 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, shareholders 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 155,900 (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, 2014, 53,500 unexercised option shares remained outstanding under the 2003 Plan.

At the 2013 Annual Meeting, shareholders 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, 2014, 37,000 unexercised option shares were outstanding under the 2013 Plan

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. Option shares may be awarded on this same date at the closing price on the date of the meeting. Some number of 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 May 2014, option awards were granted to 70 U.S., Ireland, UK and Australia employees to purchase a total of 39,000 shares at exercise prices of $49.18 or $50.72. 2,200 of those shares have been cancelled as of the end of February 2015.

Employee and director options vest over a four-year period, with a ten-year exercise period. 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 shareholder 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, an acquired contributory retirement plan for Femcare UK employees since March 2011, and a contributory retirement plan for Femcare AUS employees since December 2013. 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 2014, the Company contributed and paid administrative costs at a total expense, including all of its subsidiaries, of about $178,500. For 2015, the Board of Directors has approved continuing the retirement plan contributions on the same basis as in 2014.

(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 and Australia, employees do not pay premiums, and are provided medical and life coverages consistent with benefits provided to employees of similar companies.

Structure for Executive Officer Compensation

The structure and activities of the Compensation 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 2013 and to-date in 2014, 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 all 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 bonus 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 bonuses 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, 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, 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 2014, UTMD exceeded its growth and profitability objectives in a difficult economic period of time for all participants in the medical device industry. Based on the Company's growth in pretax/prebonus profits, annual management bonuses were 10% higher, offset by a 5% lower bonus inflating factor as a result of the greater number of options awarded in 2014 compared to 2013, for the same level of responsibility and contribution of employees regularly participating in the MB plan.

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 shareholder 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 have been awarded during the last sixteen years.

The following chart compares annual changes in total executive compensation with changes in earnings per share, shareholder return (year-end share price plus cash dividends paid during the year) and UTMD year-end market capitalization, starting at December 31, 2006:

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 other 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.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

BOARD OF DIRECTORS AND OTHER 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 shareholders. 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 2014, and one meeting to date in 2015. The independent directors also met informally with the CEO a half dozen times during the year. All of the directors attended all applicable meetings during their respective incumbencies. The independent outside directors also met without executive management three times during 2014, and once to date in 2015.

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 2014 and to-date in 2015, the Executive Committee has held about two informal meetings per month. Any formal actions taken on of 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 2014 and once to date in 2015 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 and Australia subsidiaries' financial audits and tax returns.

The Governance and Nominating Committee met formally three times during 2014, and once to date in 2015. The Governance and Nominating Committee, which is comprised of the independent members of the Board of Directors, 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 shareholders, 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 shareholders. In accordance with the Company's Bylaws, shareholders' 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 shareholders, 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.

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, comprised of all incumbent outside directors, consulted by telephone and met formally in early 2014 and again in early 2015 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 2014 and February 2015 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. All five directors attended the 2014 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 make those communications available to the directors on request.

Report of the Compensation and Benefits Committee

The Compensation 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 outside directors, all of whom 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 members of the Audit Committee are James H. Beeson, Ernst G. Hoyer and Barbara A. Payne. 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 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 Shareholders and reports filed with the Securities and Exchange Commission.

The Audit Committee formally met four times during 2014 and once to date in 2015 to review the quarterly financial reports and reviews and audits by Jones Simkins LLC, UTMD's independent lead auditor. The Committee also met informally from time to time 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 made therein, 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, 2014, 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, 2009, 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.

	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14
Utah Medical Products, Inc.	100.0	97.7	100.9	130.4	195.6	207.1
NASDAQ Composite Total Return	100.0	118.0	117.0	137.5	192.6	221.0
NASDAQ ICB: 4537 Medical Supplies	100.0	107.5	130.4	127.3	155.8	187.2

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

The Audit Committee selected, and the Board of Directors ratified, the engagement of Jones Simkins LLC as the Company's auditor and independent registered public accounting firm for the two years ended December 31, 2014 and 2013. The Audit Committee has determined to appoint Jones Simkins LLC as the Company's auditor and independent registered public accounting firm for the year ending December 31, 2015, 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 shareholders, the Audit Committee will reconsider its selection. Even if the selection is ratified by shareholders, the Audit Committee, in its discretion, may determine to appoint a different independent registered public accounting firm if the Audit Committee believes that it would be in the best interest of the Company and its shareholders.

Representatives of Jones Simkins LLC will be present at the Annual Meeting, have the opportunity to make a statement if they desire to do so, and be available to respond to shareholder questions.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE RATIFICATION OF THE APPOINTMENT OF JONES SIMKINS LLC AS ITS INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR 2015.

Fees billed by Jones Simkins LLC

The following table shows the aggregate fees billed for the audits of the Company's consolidated financial statements and for other services rendered by Jones Simkins LLC for the years ended December 31, 2014 and December 31, 2013.

		2014		2013
Audit Fees	$	101,425	$	100,750
Audit-Related Fees		2,134		1,578
Tax Fees		20,400		20,300
All Other Fees		--		--
Total	$	123,959	$	122,628

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.

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

Tax Fees. Fees for tax filing, preparation and tax and IRS audit advisory services.

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 that were required for financial audits of Femcare and its subsidiaries, year-end and statutory fiscal year 2014 financial and internal control audits of Femcare and its subsidiaries, the completion of tax returns for 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' independence, and concluded that its 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 shareholders.

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

Although the vote is non-binding, the Board of Directors and Compensation 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 shareholders approve the following advisory resolution:

RESOLVED, that the UTMD shareholders 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 SHAREHOLDER MEETING TO BE HELD ON MAY 1, 2015

This proxy statement and the annual report to shareholders are available at www.utahmed.com/proxy.htm.

SHAREHOLDER PROPOSALS

No proposals have been submitted by shareholders of the Company for consideration at the 2015 Annual Meeting. It is anticipated that the next Annual Meeting of Shareholders will be held during May 2016. In accordance with SEC Rule 14a-8 and the advance notice requirements of Section 2.15 of UTMD's Bylaws, shareholders may present proposals for inclusion in the Proxy Statement to be mailed in connection with the 2016 Annual Meeting of Shareholders of the Company, provided such proposals are received by the Company no later than December 1, 2015, 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, we encourage you to attend the meeting.

	By Order of the Board of Directors, UTAH MEDICAL PRODUCTS, INC.
Salt Lake City, Utah	Kevin L. Cornwell
March 12, 2015	Chairman and CEO

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PROXY

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

The undersigned hereby appoint Kevin L. Cornwell and Paul O. Richins, 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 Shareholders of the Company (the "Annual Meeting") to be held at the corporate offices of the Company, 7043 South 300 West, Midvale, Utah, on May 1, 2015, 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" each of the proposals.

To vote in accordance with the Board of Directors' recommendations, sign below; the "FOR" boxes may, but need not be checked. To vote against any of the recommendations, check the appropriate box(es) marked "WITHHOLD@ or AAGAINST," below.

(1) To elect two directors of the Company to serve three year terms and until their successors are elected and qualified;

Kevin L. Cornwell: FOR o WITHHOLD o

Paul O. Richins: FOR o WITHHOLD o

(2) To ratify the selection of Jones Simkins LLC as the Company’s independent public accounting firm for the year ending December 31, 2015;

FOR o AGAINST o ABSTAIN o

(3) To approve, by advisory vote, the Company’s executive compensation program.

FOR o AGAINST o ABSTAIN o

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 Shareholders Meeting to Be Held on May 1, 2015 - 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